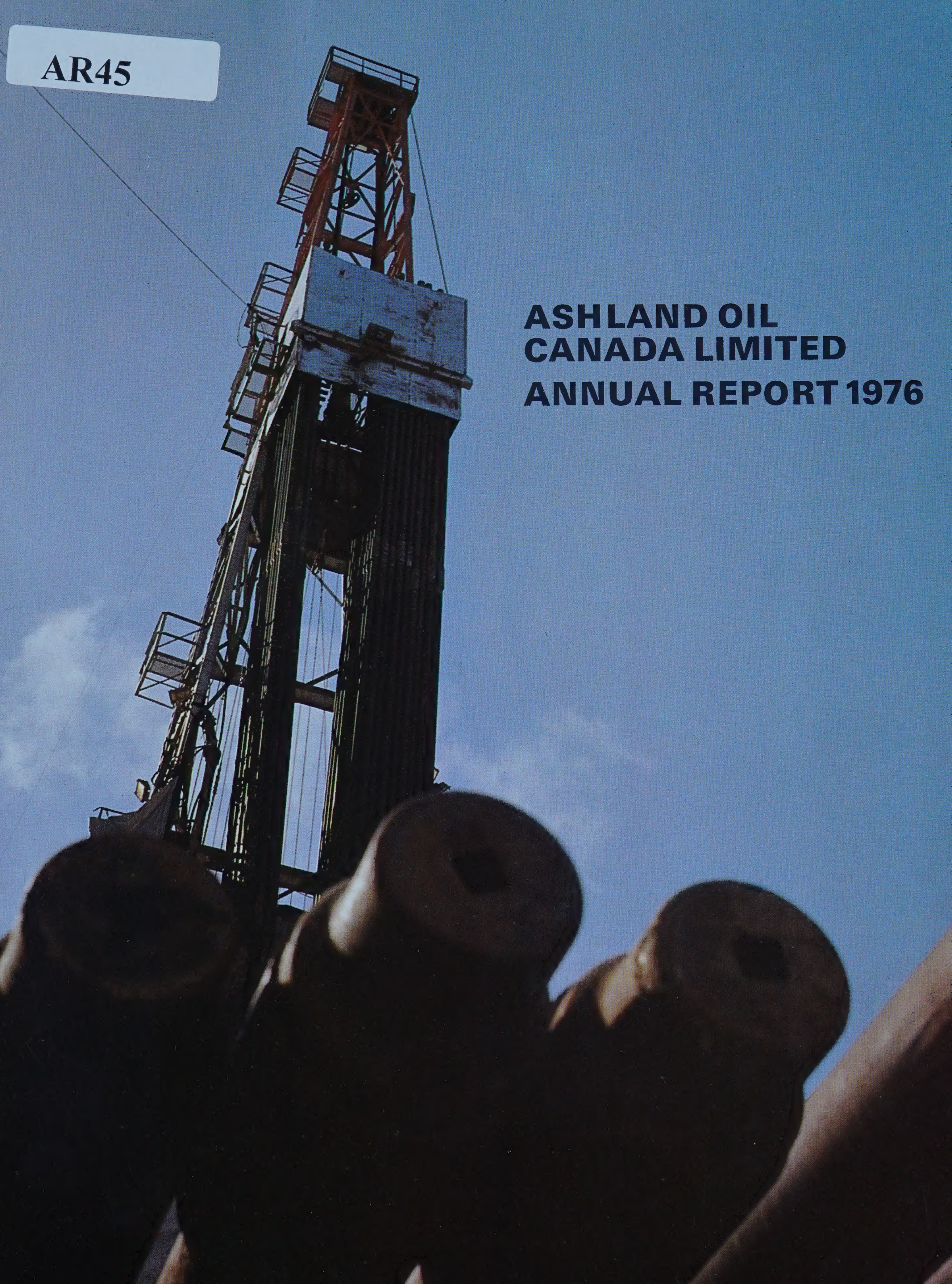


ASHLAND OIL CANADA LIMITED

ANNUAL REPORT 1976

ASHLAND OIL CANADA LIMITED ANNUAL REPORT 1976

The 1976 Annual Report is in two parts. Section I contains a review of the Company's operations while Section II contains the financial statements, notes to financial statements and other financial data and information. Both are essential parts of the 1976 Annual Report.

SECTION I

Company operations

SECTION II

Financial reports

The Annual General Meeting of shareholders of Ashland Oil Canada Limited will be held on Wednesday, January 19, 1977 at 10:00 a.m. at the Calgary Inn, Calgary, Alberta.

Si vous préférez recevoir le rapport annuel de la compagnie en français, veuillez en informer le Secrétaire, Ashland Oil Canada Limited, 1900 Travelers Tower, 400 University Avenue, Toronto, Ontario M5G 1S5.

SECTION I

Financial and operating highlights

Financial

	Year ended September 30,		%
	1976	1975	change
	in thousands except per share		
Revenue			
Oil and gas	**$ 45,991**	$ 36,138	
Asphalt paving and materials	**116,776**	113,338	
Chemical and petroleum products	**29,249**	23,628	
Other	**2,332**	3,142	
	194,348	176,246	+10
Net income for the year	**15,236**	15,002	+ 2
Per common share			
Net income for the year	**1.17**	1.16	
Cash flow	**35,918**	31,508	+14
Capital expenditures	**31,673**	33,497	− 5
Working capital	**19,864**	18,541	+ 7

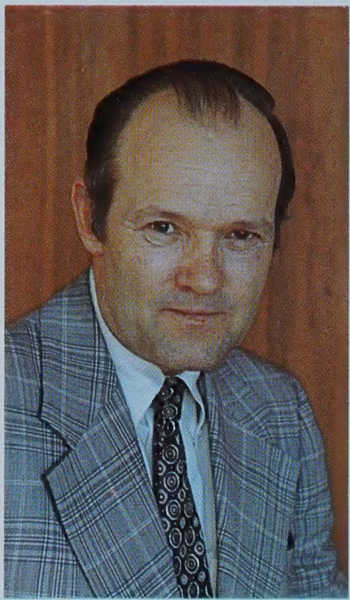
Operating

	Year ended September 30,		%
	1976	1975	change
Production			
Crude oil and NGL – thousands of barrels	**7,064**	7,914	−11
Daily average	**19.3**	21.7	
Natural gas – millions of cubic feet	**16,563**	14,046	+18
Daily average	**45.3**	38.5	

	At fiscal year end		
	1976	1975	
Proven reserves			
Crude oil and NGL – millions of barrels	**103.6**	109.3	− 5
Natural gas – billions of cubic feet	**449.3**	379.7	+18

Report of the directors

H. Earl Joudrie



Vernon Van Sant, Jr.

Ashland Canada achieved significant growth during 1976 with revenue, cash flow and earnings at record levels. Sales of $194 million generated operating income of $48 million and cash flow of $36 million.

Net income of $15.2 million, a nominal increase over 1975, was affected by the amortization of $2.4 million related to foreign exploration expenditures, primarily in Iran and Bangladesh. Income was also reduced by losses in the chemical operation due to plant start-up costs.

The Asphalt Paving and Materials Division reported another excellent year and contributed net income of $6.3 million despite a sluggish Canadian economy and a competitive marketplace.

Sales of Valvoline petroleum products and rust preventatives increased by over 30%, with continued market penetration across the country. Increased costs and lower margins resulted in less income than in 1975. Early in the year prices were held down to conform with federal price controls and cost increases had to be absorbed.

Oil and gas revenue increased 27% over 1975, because of higher wellhead prices and increased natural gas production. Operating income from oil and gas rose by 35%, sufficient to offset increased foreign and frontier amortization charges and reduced income from non-oil operations. The gain in income from oil and gas was achieved despite an increase in income tax on this operation from $7.1 million in 1975 to almost $12 million in 1976.

During 1975 the Company consciously depressed the level of overall exploration and development activity, awaiting positive policy announcements from both federal and provincial governments. Since then, a more positive trend in energy policies has allowed Ashland Canada to accelerate the search for and development of oil and gas reserves. We are now confident that governments have recognized the need for an oil and gas industry financially capable of undertaking expensive exploration programs.

Most important to the industry has been the announced federal policy to allow crude oil prices to increase to or near world market prices and to relate natural gas prices more closely to those of crude oil.

There are still many policy matters requiring clarification to ensure aggressive exploration of Canada's frontier areas and the development of oil sand reserves. The northern land and royalty/tax regulations proposed by the federal government are patently unacceptable, but we are confident these will become more rational over time. High risk conventional exploration and capital intensive oil sand development are difficult to justify while federal and provincial governments continue to take a lion's share of production revenue.

During 1976 the Company's primary effort was dedicated to the exploration and development of natural gas, with positive results. The Company's natural gas reserves increased by a larger volume than was produced during the year. Oil production in 1976 was not completely replaced by additional reserves.

Oil production is still restricted by reduced exports and resulting market prorationing. Although Ashland Canada's productive capacity exceeds 28,000 barrels per day, actual production during the year averaged 19,300 barrels per day.

In a brief submitted to the National Energy Board on Canada's crude oil supply and demand, Ashland Canada recommended that heavy and medium gravity crude oils be excluded from export restriction. There is no evidence of significant demand for these crude oils in Canada, given present refinery configuration and the Canadian market for refined product. Expanded markets for these crude oils are required immediately to avoid costly reduction of productive capacity in heavy oil fields and to provide producers with the cash flow and incentive to explore for and develop new reserves.

Ashland Canada entered into a definitive agreement, in September, for the purchase of Blue Crown Petroleums Ltd. for a cash consideration of about $9 million. The Blue Crown holdings include natural gas production and reserves and significant exploratory acreage holdings in Alberta. Completion of the transaction is subject to Blue Crown shareholder agreement and regulatory approvals, with closing expected late in 1976.

The Company has also agreed to participate, with others, in a drilling program to delineate the Brae field in the British

North Sea. The agreement and drilling program relate to interests held by Bow Valley Exploration (U.K.) Limited. The agreement is subject to approval by the British government which we anticipate receiving before the end of 1976.

In October 1975 the federal government introduced a program to combat inflation. The Anti-Inflation Board was established to review and enforce stringent price and income control regulations. The program established was very restrictive on the income of all employees and has not received the cooperation or acceptance of organized labour. The program also penalizes industry profits arising from production economies or increased efficiency.

Revenue from oil and gas operations is generally unaffected by the anti-inflation controls, as price increases are established directly by the government under overall energy policies. Other operations of the Company are affected directly by controls on prices and profit margins. However, salary and wage controls, which affect employees in all operations, will ultimately influence productivity and efficiency.

Restrictive economic policies in Canada are tending to retard growth in an already troubled economy. The federal government has economic policy under continual review; inflationary pressures are abating and we anticipate economic restrictions will lessen over the next several months. There is pressure on the government to provide some stimulation to the economy to combat rising unemployment.

The capital expenditure program for 1977, excluding the purchase of Blue Crown, is estimated at $40 million with the majority of these funds dedicated to oil and gas exploration and development activities.

The outlook for 1977 is most encouraging. Oil and gas revenue is expected to increase significantly with higher prices. Oil production should increase modestly and gas production is expected to exceed 60 million cubic feet per day as new gas is brought on stream from projects now completed or underway. The paving and materials business should equal or exceed 1976 results, with a good backlog of work now in hand. Chemical and petroleum products operations are expected to show improvement. Any concern over the performance of the Company's non-oil business relates to the Canadian economy and the effect of government policy restraining growth.

Three long-term Directors of the Company, Arloe W. Mayne, Samuel B. Davis III and Eugene W. Erickson, did not stand for re-election at the last annual meeting of shareholders. The contribution of these men to the growth and success of Ashland Canada is acknowledged and appreciated.

At the last shareholders' meeting Orin E. Atkins, Chairman of the Board and Chief Executive Officer of Ashland Oil, Inc. and George C. Hardin, Jr., Senior Vice President of Ashland Oil, Inc. and President of Ashland Exploration Company, were elected to the Board. Colin M. Evans was appointed a Director at a meeting of the Board held November 5. Mr. Evans is a Senior Vice President of Ashland Canada and has overall responsibility for the Company's oil and gas exploration and production activities.

Ashland Canada people are the Company's real strength, and their continued dedication provides the basis for our confidence in future profitable growth. The Board of Directors and Management recognize and appreciate their skills, hard work and individual effort over the past year.

H. Earl Joudrie
Chairman of the Board
and Chief Executive Officer

Vernon Van Sant, Jr.
President

November 26, 1976

Financial review

Consolidated revenue and earnings

Revenue in 1976 reached a record $194.3 million, up 10% over $176.2 million in 1975. Although constrained by overall economic factors and the additional charges referred to later in this review, net income increased by 2% to $15.2 million. Cash flow from operations increased to a record $35.9 million, up 14% over 1975. Rates of return and per share results are summarized below. The rates of return are based on the average of beginning and year-end common shareholders' equity; earnings per common share are based on the weighted average numbers of shares outstanding after providing for conversions and exercise of stock options.

	1976	1975
	in thousands except per share	
Revenue	**$194,348**	$176,246
Net income	**$ 15,236**	$ 15,002
Cash flow	**$ 35,918**	$ 31,508
Return on shareholders' equity	**15.7%**	17.0%
Net income per common share	**$ 1.10**	$ 1.09

Changes in accounting policies – No changes were made in accounting policies in 1976; however, the change made in 1975 with respect to the application of the full-cost accounting policy for frontier and foreign cost centres had an adverse effect on 1976 earnings as discussed below.

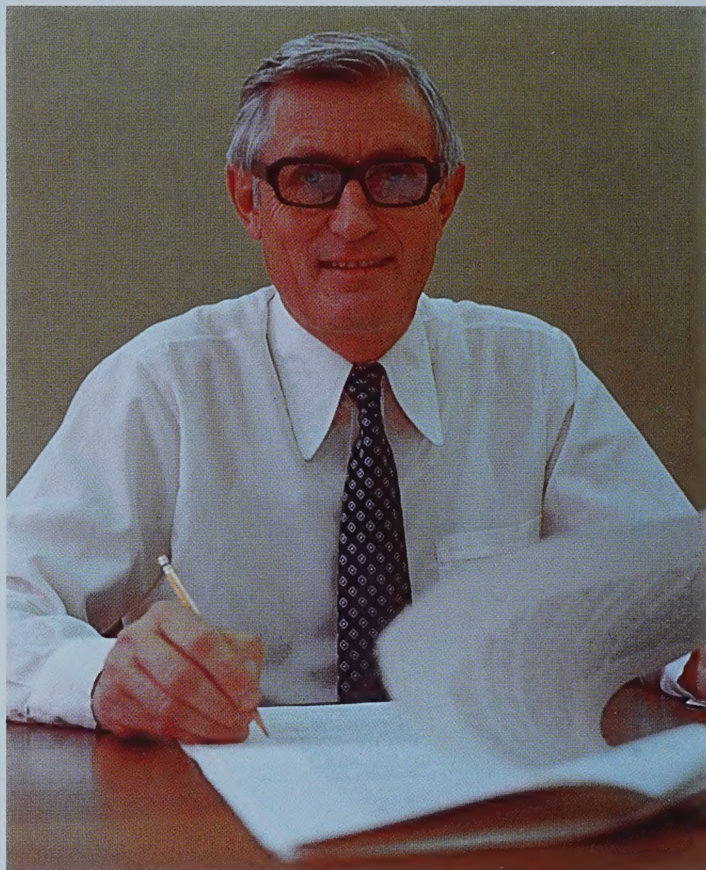
Analysis of revenue and expenses – Significant differences in revenue and expense items for 1976, as compared with 1975, are discussed and analyzed in Section II of this Annual Report.

Lines of business

The principal businesses conducted by the Company in 1976 remained consistent with those operated in the preceding five years. Historical comparisons for the six-year review period with respect to revenue, earnings, cash flow and capital expenditures are presented in Section II of this report.

Oil and gas

Net income from oil and gas operations increased by 12% in 1976 to $11.2 million from $10.0 million in 1975. The $11.2 million was earned after expensing $4.4 million of frontier and foreign exploration costs compared with $2.3 million in the prior year. At the beginning of fiscal 1975 the Company changed the method of application of its full cost amortization policy which is described in the summary of significant accounting policies in Section II of this report. The effect of this change has been to accelerate the amortization of costs in the frontier and foreign areas. In 1976, on the basis of the results of recent exploration endeavors, the amortization period was reduced to three years for costs


William J. Whelan, Senior Vice President; Treasurer

incurred in Iran and to two years for costs incurred in Bangladesh.

Capital expenditures in the past few years have been increasingly dedicated to natural gas exploration and development. In 1976, revenue from natural gas increased by 163% over 1975 as a result of both volume and price increases. The increase in capital expenditures from $12.6 million in 1975 to $22.5 million in 1976 represents a dramatic turnaround in the thrust of the Company's investment policy. A similar increase in capital expenditures is expected in fiscal 1977.

Asphalt paving and materials

Revenue from these operations increased from $113.3 million in 1975 to $116.8 million in 1976, while net income declined nominally from $6.5 million to $6.3 million. Fiscal 1975 was an outstanding year for these operations by a significant margin and while 1976 results were not entirely comparable with 1975 they are significantly up from earlier years as illustrated by the charts presented later in this report. The battle against inflation presently being waged by various levels of government has had the effect of reducing the amount of contract work available, and creating downward pressure on prices. In the face of this very competitive situation the Company increased its volume of

work and its revenue from these operations and maintained reasonable profit margins. The broad geographic diversification of the operations was a positive factor in helping to offset the shortage of work in some localities. Capital expenditures by the Division were down to $7.3 million from the $9.0 million spent in 1975.

Chemical and petroleum products

With a 24% increase in revenue to $29.3 million, the chemical and petroleum products operations contributed net income of $48 thousand, down from $857 thousand in 1975. For the most part the decline in income arose in the chemical operation. Start-up costs of the new manufacturing facility incurred early in the year, along with greatly increased depreciation charges related to the $14 million capital cost, resulted in a net loss for the Chemical Division. The general economic slow down in the housing industry and the "no growth" situation in the automobile industry combined to keep product prices under pressure for most of the year. The petroleum products marketing operations, which market "Valvoline" brand products and rust preventatives, also showed volume increases but, with pressure on prices, margins declined and net income was down. Most of the capital expenditures on the new chemical facility were incurred in prior years and, as a result, capital expenditures for these operations declined in 1976 to $1.7 million from the $11.7 million recorded in 1975.

Changes in financial position

Total funds available in 1976 increased 12% from the prior year due almost entirely to increased funds from operations.

	1976	1975	% Change
	in thousands		
Funds available:			
From operations	**$35,918**	$31,508	+14
Property and equipment disposals	**498**	712	−31
Other sources	**452**	631	−27
Total	**$36,868**	$32,851	+12
Funds applied:			
Property and equipment additions	**$32,171**	$34,209	− 6
Dividends paid	**2,675**	6,551	−59
Other applications	**698**	1,115	−37
Total	**$35,544**	$41,875	−15
Increase (decrease) in Working Capital	**$ 1,324**	$ (9,024)	

Long term debt issued during the year was minimal and funds provided from other sources were not significant. Capital expenditures declined in 1976 and this, combined with no extra dividend being paid over and above the regular dividend of 20¢ per common share, resulted in a 15% decline in the application of funds. (In 1975 the Board of Directors adopted a dividend policy and paid a regular dividend of 20¢ per common share for that year plus an extra dividend of 30¢ in recognition of prior years' earnings.)

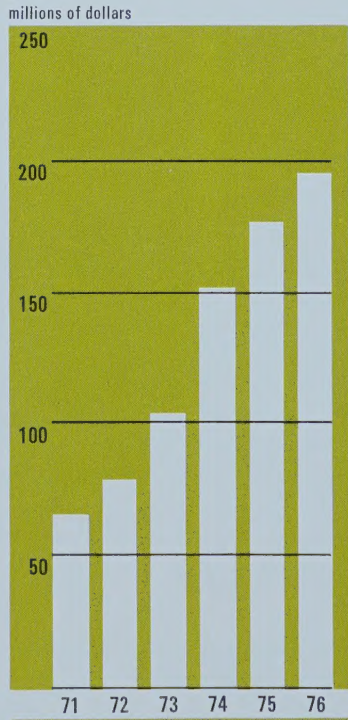
Although there was an increase of $1.3 million in working capital in 1976 the Company's net cash position was reduced by $4.7 million. Substantial payments on account of federal and provincial income taxes caused most of this decline in cash balances.

Financing

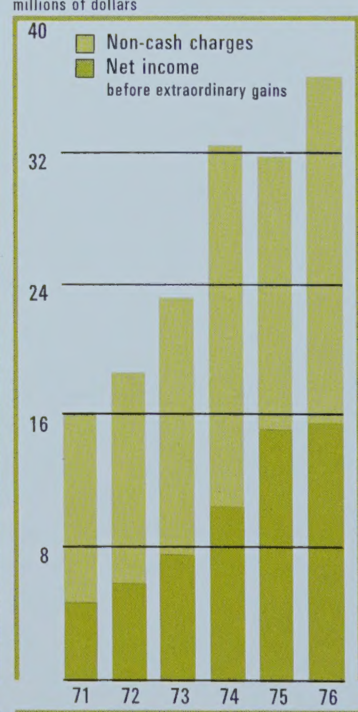
In November 1976 the Company issued Sinking Fund Debentures in the amount of $30 million carrying an interest rate of 10⅜% and maturing in 1996. Part of the proceeds from this financing has been used to retire the $10 million Income Debenture issued in 1974 and to repay current bank indebtedness. The balance has been added to working capital from which approximately $9 million will be required if the acquisition of Blue Crown Petroleum Ltd. is concluded. This financing was the Company's first public issue of straight debt and it was well received in the market place.

Consolidated Company

Revenue
millions of dollars



Cash flow
millions of dollars



Oil and Gas Division

Exploration and development activities were at high levels during 1976 as a direct result of more rational government policies on oil and gas prices, taxes, royalty levels and incentives.

Oil and gas operations achieved some notable gains during 1976 with revenue, cash flow and income from production at record levels. Results of exploration and development activities were also most encouraging.

Oil and gas production

Crude oil production averaged 19,300 barrels per day in 1976 compared with 21,700 barrels per day in 1975, against a productive capacity of about 28,000 barrels per day. Reduced production levels resulted from export restrictions. The Company's crude oil production in 1977 is expected to equal or exceed 1976 levels, and revenue should be enhanced with higher prices.

Natural gas production averaged 45 million cubic feet per day compared with 38 million cubic feet per day in 1975. A large proportion of the Company's capital expenditures in recent years was related to gas exploration and development. Shut-in reserves are now being placed on stream and production should average over 60 million cubic feet per day in 1977.

Crude oil and natural gas production

	1976	1975
Crude oil and liquids (barrels)		
Annual production	**7,064,000**	7,914,000
Daily production	**19,300**	21,700
Natural gas (thousands of cubic feet)		
Annual production	**16,563,000**	14,046,000
Daily production	**45,300**	38,500

In December, 1975 the federal government instituted a program to reduce crude oil exports to an average of 460,000 barrels per day in 1976 from 700,000 barrels per day in 1975. The present program for continued export reduction would virtually eliminate exports by 1980-81.

The program has a drastic effect on heavy and medium gravity crude oils for which there is a limited Canadian market. We are hopeful the National Energy Board and the government will eliminate or at least relax restrictions on the export of heavy and medium crudes. Increased access to U.S. markets for heavier grades of crude oil would have a significant positive effect on Ashland Canada's production revenues and would encourage the development of additional reserves.

Colin M. Evans, Senior Vice President
Joe S. Irwin, Jr., Vice President and Division General Manager

Production income

Ashland Canada's production revenue, after deduction of royalties, rose to $46 million from $36 million in 1975.

Cash flow of $24.4 million increased by 32% from $18.4 million in 1975.

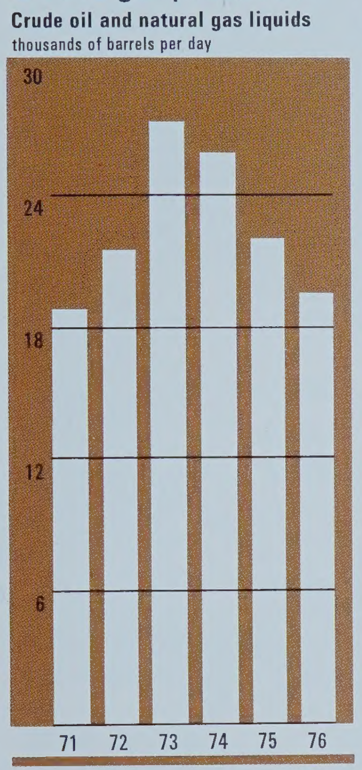
Revenue will continue to benefit from increased oil and gas prices, and from increased natural gas production as more projects to bring gas reserves to market are completed.

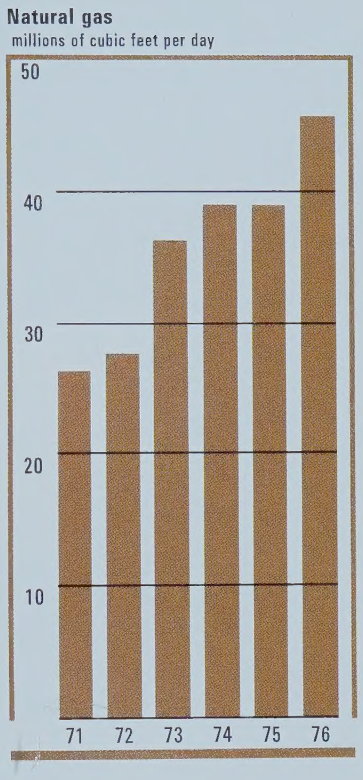
The following table summarizes oil and gas price increases instituted or scheduled by the government.

	Price increase	Effective
Crude oil – wellhead		
(per barrel)	$1.50	July 1, 1975
	$1.05	July 1, 1976
	$0.70	January 1, 1977
Natural gas – Toronto		
(per thousand cubic feet)	$0.43	November 1, 1975
	$0.15	July 1, 1976
	$0.10	January 1, 1977
Natural gas – U.S. border		
(per thousand cubic feet)	$0.60	November 1, 1975
	$0.20	September 10, 1976
	$0.14	January 1, 1977

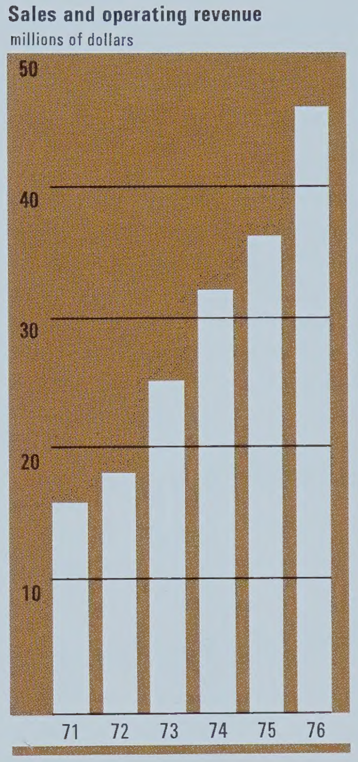
Oil production facilities, Pembina, Alberta

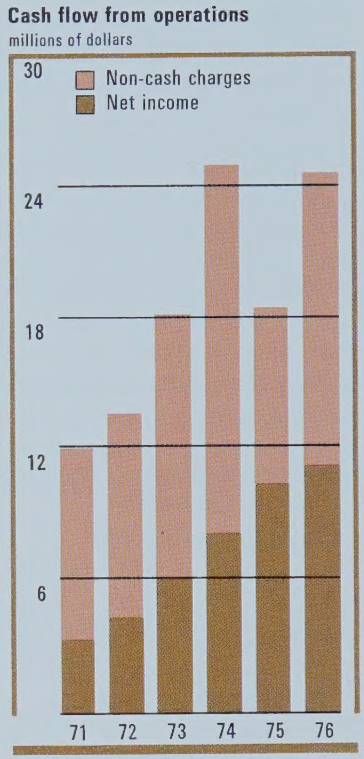
Oil and gas production





Oil and gas





Proven and probable reserves

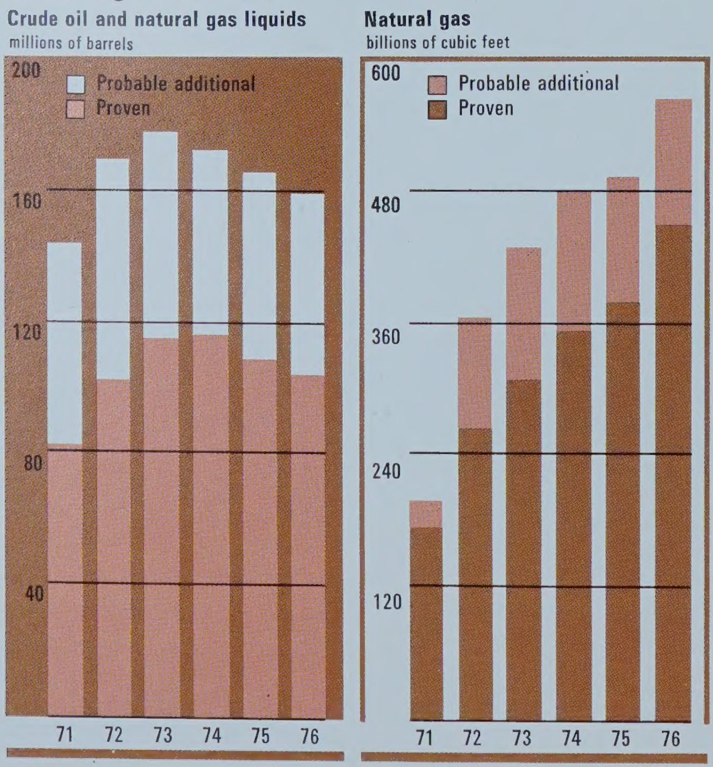
Ashland Canada increased proven gas reserves from 380 billion cubic feet in 1975 to 450 billion cubic feet at the 1976 year end. Proven and probable gas reserves now stand at 560 billion cubic feet, reflecting our emphasis on gas exploration and development.

In common with the industry trend, crude oil reserves declined as the year's production was not replaced. Proven and probable crude oil reserves at year end were 158.4 million barrels, a net reduction of six million barrels, after production of seven million barrels.

Crude oil and natural gas reserves

	September 30 1976	1975
Crude oil and liquids (millions of barrels)		
Proven developed	103.6	109.3
Probable additional	54.8	55.1
Total	158.4	164.4
Natural gas (billions of cubic feet)		
Proven developed	449.3	379.7
Probable additional	110.7	110.6
Total	560.0	490.3

Oil and gas reserves



The Company's crude oil and natural gas reserves are reviewed and evaluated annually by independent oil and gas reservoir engineers. The table below summarizes changes in hydrocarbon reserves during 1976 and indicates total oil equivalent on the basis of 8,000 cubic feet of gas being equivalent to one barrel of oil.

	Gas (billions of cubic feet)	Oil (millions of barrels)	Total oil equivalent (millions of barrels)
Reserves –			
September 30, 1975	490.3	164.4	225.7
1976 additions	86.3	1.1	11.9
	576.6	165.5	237.6
1976 production	(16.6)	(7.1)	(9.2)
Reserves –			
September 30, 1976	560.0	158.4	228.4

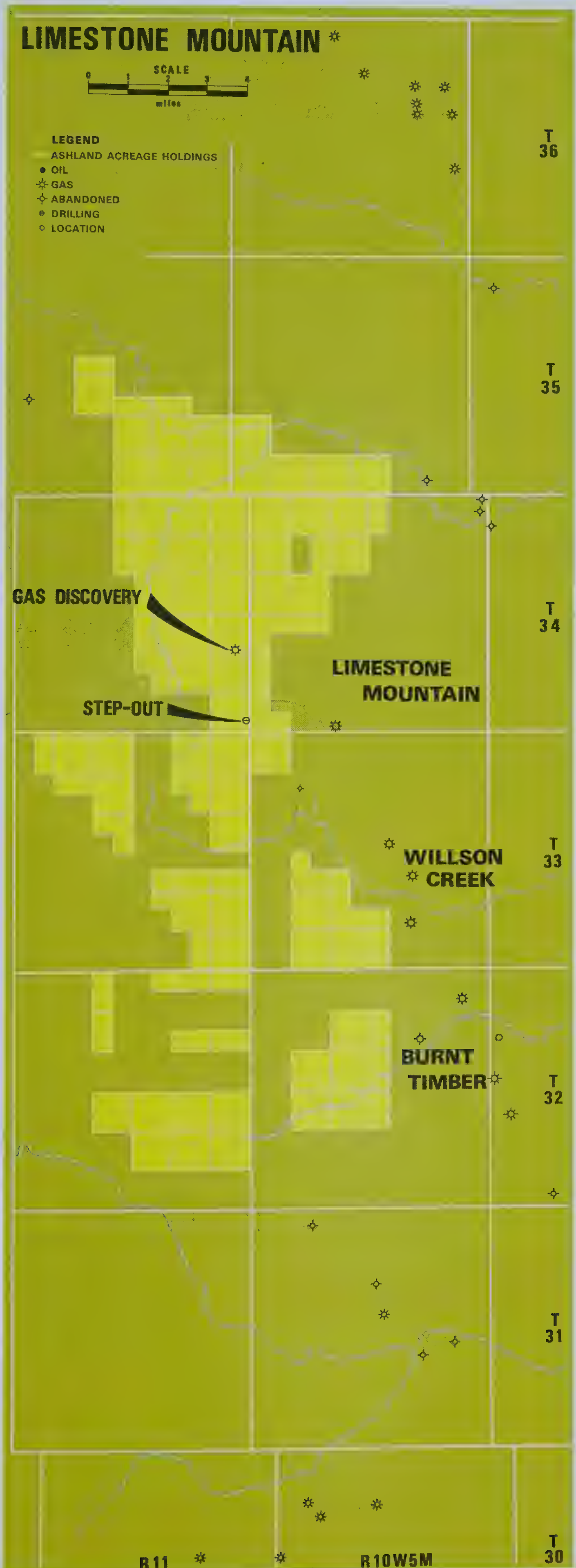
Proven and probable crude oil and natural gas reserves by location – September 30, 1976

	Oil millions of barrels	%	Natural gas billions of cubic feet	%
Alberta	131.1	82.8	490.4	87.6
Saskatchewan	19.8	12.5	25.6	4.6
British Columbia	7.3	4.6	44.0	7.8
Manitoba and Ontario	.2	0.1	—	—
	158.4		560.0	

Blue Crown Petroleums Ltd.

In September Ashland Canada entered into a definitive agreement to purchase all of the shares of Blue Crown Petroleums Ltd. from Blue Crown Inc. for about $9 million. The purchase is subject to approval of the Blue Crown shareholders and of regulatory authorities.

Blue Crown holds varying interests in 1.3 million acres of petroleum and natural gas rights in Alberta and currently produces about 2 million cubic feet of gas per day. Included in Blue Crown holdings are a 10% interest in the Limestone area wells, a 25% interest in adjacent acreage, and interests in the Keg River project described in this report.



Exploration and development

During 1976 capital expenditures on oil and gas programs totalled $22.5 million, $18.4 million of which was dedicated to projects in Canada.

Canadian activities

The Company participated directly in the drilling of 143 wells, 17 of which qualified for Alberta incentive credits under that province's program to stimulate exploration.

In addition, 143 wells were drilled by others, at no cost to Ashland Canada, on lands it farmed out and retained royalty interests. In most cases the Company has also retained the right to convert its royalty interest to a working interest. Most of the royalty interest wells were drilled on farmout of Company-owned shallow gas properties in the Jenner and Medicine Hat West areas of southern Alberta.

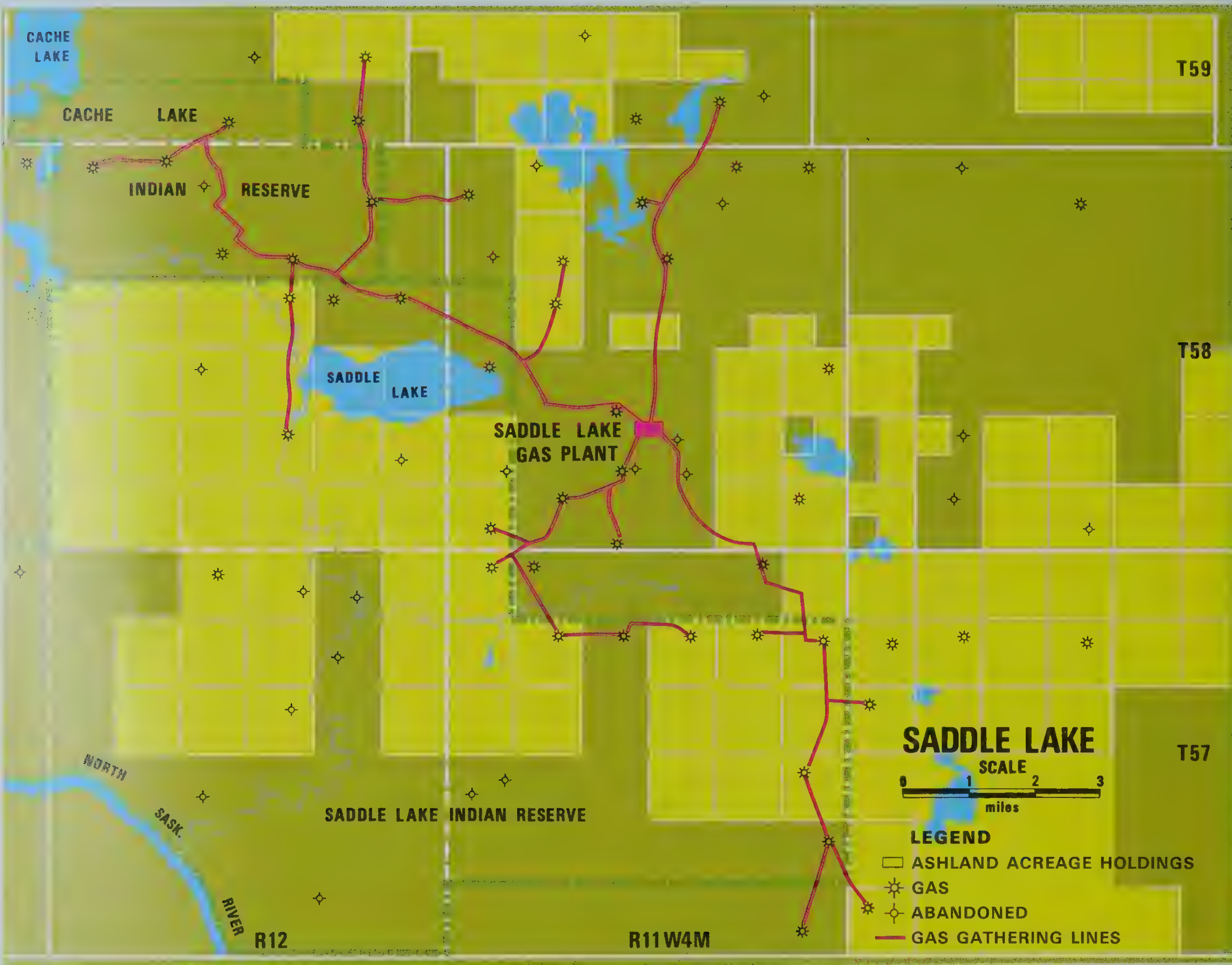
Exploration and development drilling – 1976

	Exploratory	Development	Total
Working interest wells			
Oil	1	11	12
Gas	6	93	99
Abandoned	12	20	32
Total	19	124	143
Royalty interest wells			
Oil	1	5	6
Gas	6	118	124
Abandoned	4	9	13
Total	11	132	143
Total drilling program	30	256	286

The majority of wells drilled on Company lands were completed for natural gas production. Two oil discoveries and 12 natural gas discoveries were drilled and evaluation drilling is now underway or planned.

Limestone Mountain – In the Limestone Mountain area, situated in the Foothills Thrust-belt of western Alberta, Ashland Canada has a 10% interest in a 1975 Mississippian gas discovery with deliverability of over 20 million cubic feet per day. In 1976 a two-mile stepout was drilled and casing run into the Devonian formation at a depth of 14,600 feet. Extensive testing of prospective zones will be underway this year and further drilling is planned to evaluate the Limestone Mountain structure.

Ashland Canada now holds a 10% interest in 19,000 acres and a 25% interest in 31,000 acres in the Limestone Mountain area.



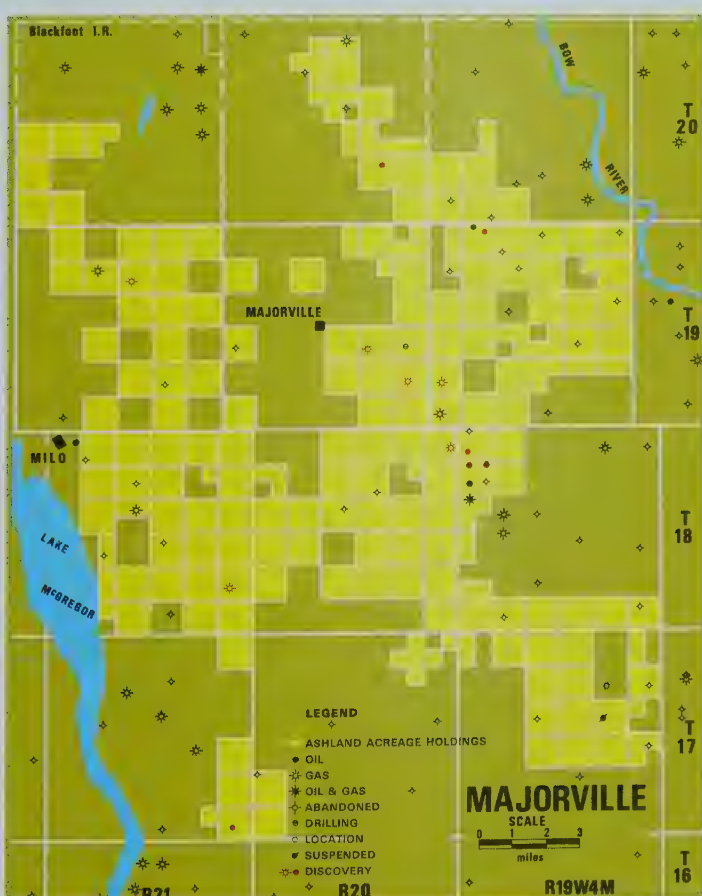
Saddle Lake – As operator for a group of 15 companies, Ashland Canada completed construction of gas gathering and compression facilities for the Saddle Lake development project in central Alberta where 35 wells commenced production in July. Ashland Canada holds a 20% interest in the project, and its share of production is about seven million cubic feet per day.

Keg River – In northern Alberta, exploratory drilling resulted in completion of four shallow Bluesky gas wells, testing from 2.3 to 5.6 million cubic feet per day. An extensive development drilling program is now underway and necessary gas pipeline and gathering systems are planned. Ashland Canada holds interests ranging from 25% to 32% in 54,000 acres in this area.

Jenner – In this area of southeastern Alberta the Company holds an extensive acreage position in several multi-zone fields and completed 22 wells for gas production in 1976. These wells will be tied into new compression facilities during 1977. Ashland Canada's interest in this project is 80%.

Majorville – Ashland Canada continued exploration and development drilling in this area, 75 miles southeast of Calgary. Over the past three years eight oil and nine gas wells have been completed in a number of zones. The multi-zone gas discoveries indicate the presence of sufficient reserves to warrant gathering and compression facilities. The Company's 1977 program will include several evaluation wells to delineate both oil and gas pools and to proceed with development. The Company owns interests ranging from 12½% to 50% in over 100,000 acres in the area.

Dixonville – Four gas wells have been completed by Ashland Canada in this area of Alberta and compression plant construction is now underway. The Company's interest in the joint venture is approximately 30% and its share of production, due on stream in 1977, is expected to be about five million cubic feet per day.



Mackenzie Delta – Ashland Canada is a 20%-25% participant in a four-well drilling program as a member of the "Delta 5" Group. Three wells have been drilled without discovering significant hydrocarbons. The last commitment well, Imperial Delta 5 Kurk D-40, will be drilled in 1977. The group is continuing to search for prospects which warrant drilling in the Delta area.

Helmet – In northeast British Columbia Ashland Canada drilled a successful Slave Point Devonian exploratory well which is now on production with a capability of five million cubic feet per day. The Company's interest is 33⅓%, and additional drilling is being considered in the area.

Grand Forks – Unitization of this Basal Mannville oilfield in southern Alberta has been completed and the waterflood supply and injection facilities have been constructed. The waterflood is expected to enhance ultimate recovery and increase productive capacity to 9,000 barrels per day from the current capacity of 3,000 barrels per day. Ashland Canada holds an 82% interest in the project which will have a significant impact on revenue and income as markets for medium gravity oils become available.

Foreign activities

The Company has taken modest percentage participations in exploratory projects in countries outside Canada.

United Kingdom – Ashland Canada has agreed to participate in a drilling program to delineate the Brae field off the coast of Great Britain in the North Sea.

Under the agreement, which is subject to approval by the British Government, the Company would acquire a 1.4% interest in Licence P. 108 and a 1.75% interest in Licence P. 222 from Bow Valley Exploration (U.K.) Limited for $1.5 million, half of which would be recoverable out of a portion of Bow Valley's share of future production.

Ashland Canada must finance an equal amount of Bow Valley's share of both delineation and development costs to retain the interests to be acquired. All financing of Bow Valley's cost share will be recoverable, with interest, out of a portion of Bow Valley's share of future production.

Brae wells #1 and #3, previously drilled, indicate potential on Block 16/7 for a major offshore oilfield. One delineation well, #4A, was dry and abandoned. The #5 and #6 wells are currently drilling and should reach total depth later in 1976. Brae well #2 was drilled in 1975 on a separate structure and oil was encountered. Further evaluation of this structure is not planned for 1977.

The Brae project is likely to continue in exploratory and development stages for four to five years, requiring significant capital investment.

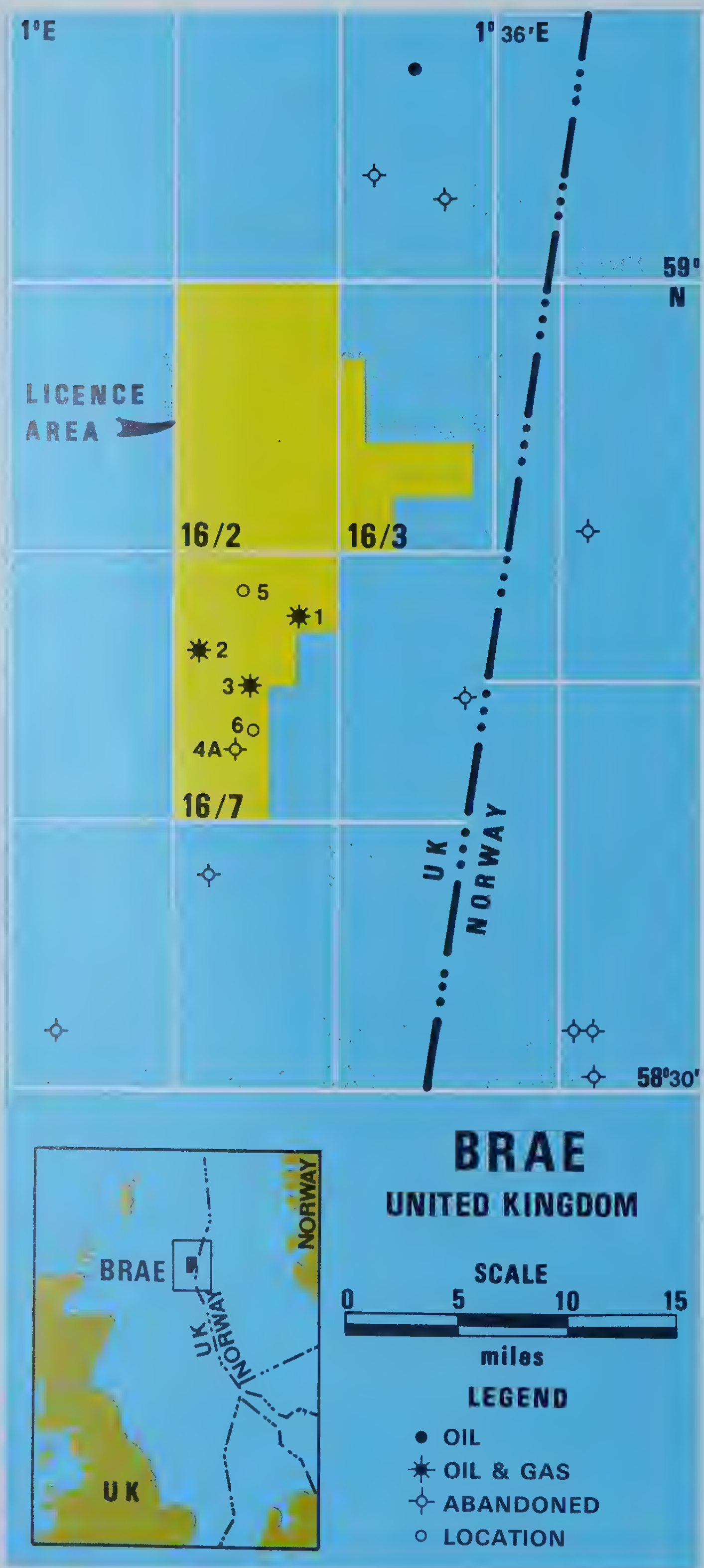
Iran – During 1976 Ashland Canada held a 10% interest in two tests drilled in the Lar region of Iran. Located on major untested structures, these wells did not find commercial production. A third well, now drilling, should reach total depth late in 1976.

Bangladesh – Geophysical exploration was undertaken in 1976 over extensive offshore concessions in which the Company holds a 10% interest. Seismic information is being reviewed; however, there are no present plans to conduct drilling or further exploratory work in 1977.

Petroleum and natural gas rights

The Company holds petroleum and natural gas rights in Canada covering 15.2 million gross acres, equivalent to 3.5 million net acres. Over two-thirds of these holdings are located in the traditional producing areas with the most significant position being in the province of Alberta where the Company's net holdings represent over 53% of its total net acreage position.

Drilling for gas in northeast British Columbia



Petroleum and natural gas rights – September 30, 1976

	Gross acres	Net acres
Traditional areas:		
Alberta	4,803,290	1,866,053
British Columbia	389,605	175,754
Saskatchewan	276,498	185,547
Manitoba and Ontario	14,575	14,475
	5,483,968	2,241,829
Frontier areas:		
Northwest Territories	2,006,348	307,741
Arctic Islands	5,180,180	387,032
East coast offshore	2,004,933	262,995
	9,191,461	957,768
Fee Mineral titles:		
Saskatchewan	396,291	220,656
Manitoba	111,139	55,569
	507,430	276,225
Total holdings	15,182,859	3,475,822

National energy policies

In April 1976 the federal government announced a national energy strategy and set the following targets:

(i) To move domestic oil prices towards international levels; and to move domestic prices of natural gas to an appropriate competitive relationship with oil over the next 2-4 years.

(ii) To reduce the average rate of growth of energy use in Canada, over the next ten years, to less than 3.5% per year.

(iii) To limit Canada's net dependence on imported oil in 1985 to one third of total oil demand.

(iv) To maintain Canada's self-sufficiency in natural gas through the period until northern gas can be brought to market under acceptable conditions.

(v) To at least double exploration and development activity in the frontier regions of Canada over the next three years, under acceptable social and environmental conditions.

The prospects of the industry achieving the production and activity targets would be enhanced with the removal of inhibiting government policies, including those which maximize the benefits to federal and provincial governments to the detriment of Canada's oil industry.

"Delta 5" Group exploratory test in the Mackenzie Delta

Asphalt Paving and Materials Division

Lawrence G. Link, Senior Vice President; Division President

Operations across the country continued at high levels during the year, resulting in a record revenue of $116.8 million compared with $113.3 million last year. Net income of $6.3 million was down slightly from a record $6.5 million in 1975, due to adverse weather in certain regions and intense competition in most regions.

Over the past five years a planned program of acquiring sand, gravel and quarry material was carried out and the necessary properties acquired. As a result of this program the Division was sufficiently strong and integrated to maintain earnings in a period when investment levels and construction activity were depressed by a policy of economic restraint. Since 1971 revenue has increased from $36 million to $117 million and operating income from $4.8 million to $12.1 million. Commercial operations in major urban areas across Canada, each backed by owned material reserves, will allow the Company to take full advantage of expected national economic and population growth.

During 1976 the Company continued to add to material reserves, with 230 million tons now owned and an additional 24 million tons under lease. Most reserves are located within or adjacent to major urban areas on approximately 9,000 acres of land owned by the Company.

Capital expenditures in 1976 were $7.3 million, down from the $9.0 million spent the previous year. Included in this year's additions were a new asphalt plant located in Aylmer, Quebec and the re-location of a plant to Cornwall, Ontario where a new commercial operation was established.

Ashland Canada operates 31 asphalt plants on permanent locations which manufacture asphaltic concrete in support of its own construction activities, but also for direct commercial sale to others. In addition, the Company owns 15 portable plants which are moved to specific job sites as required. Crushing plants, strategically located in owned and leased pits and quarries, allow the sale of significant volumes of material to the commercial market in addition to supporting the Company's asphalt plants and construction operations.

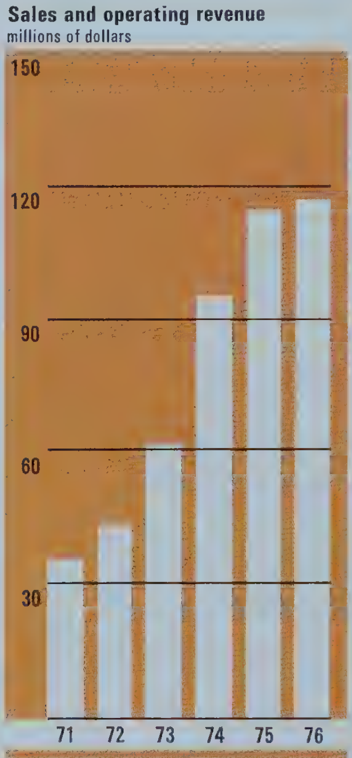
Although the economy remains sluggish, the outlook for 1977 is good. Work ahead under contract at year end totalled $29 million compared with $25 million last year. This business is essentially strong and should maintain or increase its contribution to corporate earnings, particularly if the overall economy receives even mild stimulation.

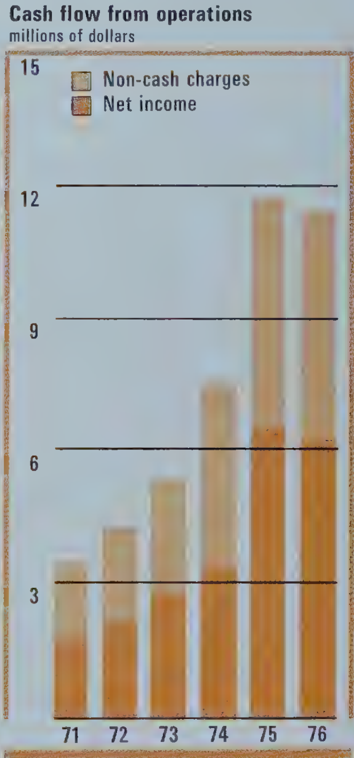
New asphalt plant located near Aylmer, Quebec

Typical asphalt paving operation

Rebuilding a section of highway near Gananoque, Ontario

Asphalt paving and materials






BARBER-GREENE
DESCHENES


PAY LOADER

Chemical Division

Brian R. Wakeford, Vice President; Division President

The Chemical Division of Ashland Canada, through its Resin & Chemical group, supplies resins to the foundry, reinforced plastics and paint industries and specialty surfactants to the mining and detergent industries. The resin line includes alkyds, polyesters, acrylics, phenolics, furans, urethanes and water-based products. Although sales are made on a nation-wide basis, the major markets for the products are at present in Ontario and Quebec. This group also markets a wide variety of chemical products produced by Ashland Oil, Inc. and other companies in the United States.

In addition to the above operation the Division is engaged, through its Industrial Chemicals & Solvents group, in purchasing and distributing a wide variety of petrochemicals, chemicals and solvents throughout southern Ontario and Quebec to the protective coating industry, foundries and numerous other manufacturers.

The Company's new resin and chemical manufacturing facility in Mississauga was completed late in 1975 at a cost of $14 million. Start-up costs were greater than anticipated and, combined with depressed product prices in a very competitive market, resulted in an overall loss for the Division in 1976. The plant was constructed during a period in which income tax legislation enabled the Company to take maximum advantage of accelerated capital cost allowance on manufacturing facilities, thereby significantly benefiting its cash flow through deferred tax provisions.

Revenue of $19.7 million was up from $15.7 million in 1975, with increases being realized in both of the above mentioned operations. However product prices did not keep pace with rising costs with the result that operating income before depreciation declined from $1.0 million to $.7 million. After depreciation charges and non-recurring start-up expense the Division reported a loss of $370,000 compared with income after tax of $400,000 in 1975.

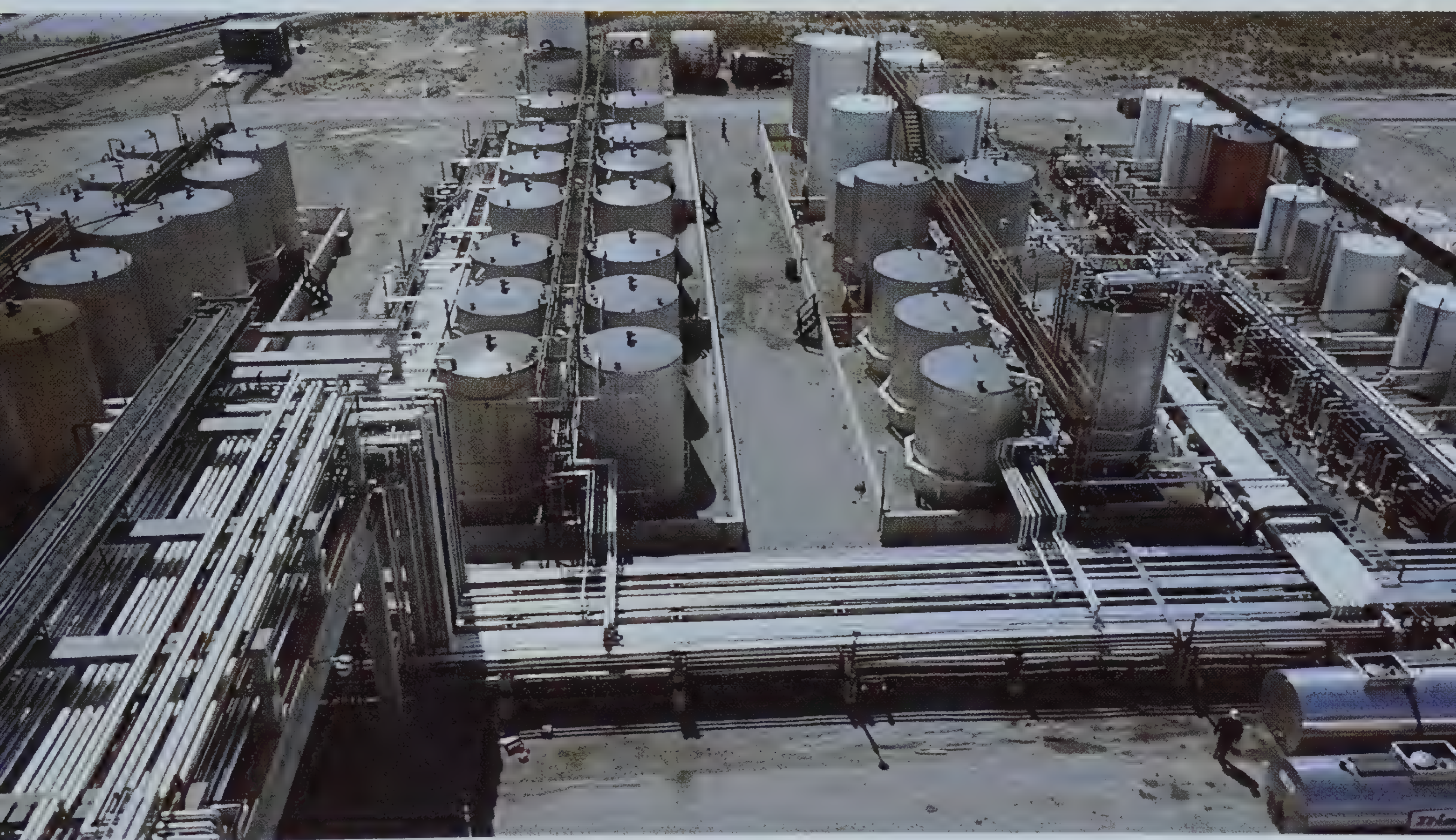
The new plant is now operating efficiently, with an ultimate capacity of 70 million pounds per year. The excellent position established by the Company in the market for high technology foundry products will be enhanced by new plant efficiencies. The new plant will also allow expanded manufacture of polyesters, along with products for the paint, plastics and mining industries. In 1977 Ashland Canada will commence the production of a full line of Hetron polyesters used in the manufacture of plastics for fire and chemical resistant applications.

This Division is expected to show marked improvement in 1977 and will benefit greatly from any improvement in the economy.

Colour-coded containers identify chemical product groups

Product testing in new laboratory at Mississauga

Storage facilities for product and raw material



Valvoline Division

Valvoline Oil Canada Division increased sales by over 30% in 1976, although net income was depressed from 1975 levels by rising costs which could not be offset by corresponding increases in product prices.

The blending and packaging plant built in 1972 at Boucherville, Quebec, near Montreal, has allowed efficient supply and service to the Quebec market where Valvoline products are widely accepted. In addition, this plant has provided access to the Maritime market where sales are expected to increase.

The Company's plant in Toronto is nearing capacity. In order to maintain a high standard of service to existing customers, and to handle a steadily increasing demand for products, plans for a new facility in Mississauga on property now owned by the Company are under review.

In addition to a wide variety of automobile and recreational engine lubricants, industrial oils and greases, Valvoline markets high quality Tectyl rust preventatives to an expanding market across Canada. Plants are well located in Toronto, Montreal and Vancouver to provide efficient service to a growing network of distributors and dealers in these major urban areas.

During 1976, Valvoline again increased its consumer advertising program which started in May with Valvoline being a major sponsor of the delayed telecast of the Indy 500 over Canada's CTV network.

John D. Barr, Division Vice President

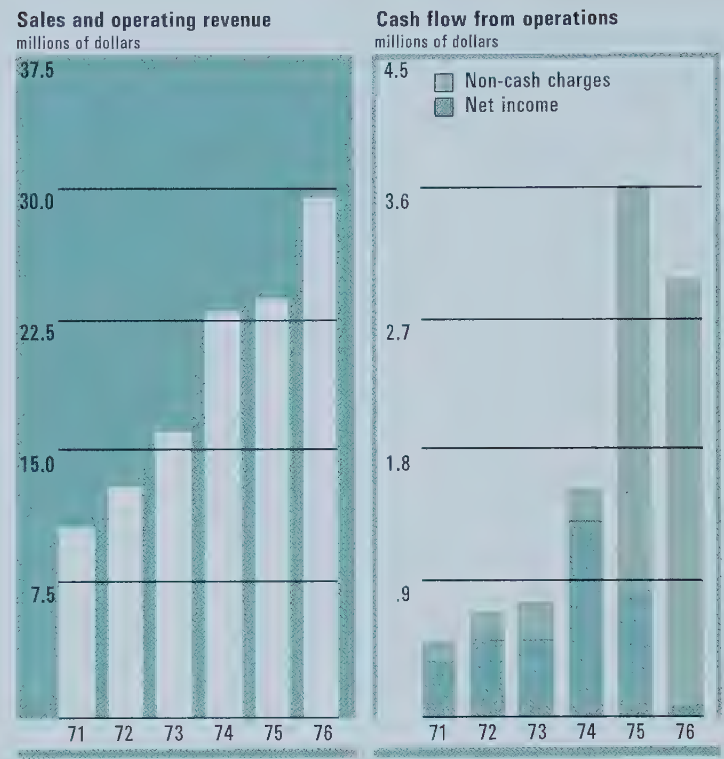
The racing event might well have been called the "Valvoline 500" as the winning car driven by Johnny Rutherford, and all but two of the other cars, ran on "Valvoline" product. The result gave tremendous exposure to Valvoline which was the most prominently advertised motor oil brand at the speedway with identification on cars, drivers, fuel tanks, and pit boards.

Valvoline continued its prominent involvement in Canadian racing activities, highlighted with a sponsorship of the 1976 Canadian driving champion, Gilles Villeneuve, who also clinched the USA Formula Atlantic Championship.

As a means of generating heavy, seasonal sales volume, Valvoline became involved for the first time with outdoor billboard advertising. Over the three month period from mid-July to October, nearly 50% of all adults in Canada were exposed to this high-impact advertising media.

We are most encouraged by the outlook for greater market penetration and the ability of Valvoline Canada to increase revenue and profits in 1977.

Chemical and petroleum products



Automated equipment packages lubricating oils

Distribution begins at the plant

Directors

Orin E. Atkins, Ashland, Kentucky
Chairman of the Board and Chief Executive Officer, Ashland Oil, Inc.‡

Eric Connelly,*† Calgary, Alberta
Chartered Accountant (self employed)

Colin M. Evans, Calgary, Alberta
Senior Vice President,
Ashland Oil Canada Limited

George C. Hardin, Jr., Houston, Texas
Senior Vice President, Ashland Oil, Inc.,‡
President, Ashland Exploration Company, a Division of Ashland Oil, Inc.‡

H. Earl Joudrie,*† Toronto, Ontario
Chairman of the Board and Chief Executive Officer, Ashland Oil Canada Limited

Lawrence G. Link, Mississauga, Ontario
Senior Vice President;
President, Asphalt Paving & Materials Division, Ashland Oil Canada Limited

James A. Millard,*† Calgary, Alberta
Partner, MacKimmie Matthews, Barristers and Solicitors

Carl O. Nickle,† Calgary, Alberta
Oil company executive, Conventures Limited, an energy resources company

William R. Seaton,*† Ashland, Kentucky
Vice Chairman of the Board of Directors, Ashland Oil, Inc.‡

Vernon Van Sant, Jr.,† Calgary, Alberta
President,
Ashland Oil Canada Limited

William J. Whelan, Toronto, Ontario
Senior Vice President; Treasurer,
Ashland Oil Canada Limited

*Member of the Audit Committee.

†Member of the Compensation Committee.

‡Ashland Oil, Inc., a Kentucky, U.S.A., corporation, is a diversified industrial company and the parent of Ashland Oil Canada Limited.

Principal officers

H. Earl Joudrie
Chairman of the Board and Chief Executive Officer

Vernon Van Sant, Jr.
President

Colin M. Evans
Senior Vice President

Lawrence G. Link
Senior Vice President;
President, Asphalt Paving & Materials Division

William J. Whelan
Senior Vice President; Treasurer

Joseph S. Irwin, Jr.
Vice President;
General Manager, Oil & Gas Division

Brian R. Wakeford
Vice President;
President, Chemical Division

Arthur R. Morison
Comptroller

Leslie Treloar
Secretary

General Counsel

Georges Dubé

Executive and operating personnel

John D. Barr
Vice President, Valvoline Oil Canada Division

Harry W. Littleford
Director of Internal Audit

J. Ronald McGregor
Manager, Corporate Planning

F. Alexander McNeil
Credit Manager

G. David Ravencraft
Director of Personnel

(All persons listed above are full time employees of Ashland Oil Canada Limited)

Principal offices

Registered head office

1800 Standard Life Building, 639 – 5th Ave. S.W.,
Calgary, Alberta T2P 0N1

Executive offices

1900 Travelers Tower, 400 University Ave., Toronto,
Ontario M5G 1S5

Operating divisions

Oil & Gas Division

1800 Standard Life Building, 639 – 5th Ave. S.W.
Calgary, Alberta T2P 0N1

Asphalt Paving & Materials Division

Suite 204, 1017 Wilson Ave., Downsview, Ontario M3K 1Z1

Regional Offices:

Little Harbour Road, New Glasgow,
Nova Scotia B2H 5E2

72 Ashwarren Road, Downsview, Ontario M3J 1Z6

Klock Road, Aylmer, Quebec J9H 5E4

P.O. Box 6100, Station C, Edmonton, Alberta T5B 4K5

Granville Island, British Columbia V6J 4N7

Valvoline Oil Canada Division

31 Industrial Street, Toronto, Ontario M4G 1Z2

421 No. 3 Road, Richmond, British Columbia V6X 2C3

1270 Rue Nobel, Boucherville, Quebec J4B 5H1

Chemical Division

2620 Royal Windsor Drive, Mississauga, Ontario L5J 4E7

Resin & Chemical Group, 2620 Royal Windsor Drive,
Mississauga, Ontario L5J 4E7

Industrial Chemicals & Solvents Group, 150 Bronoco
Ave., Toronto, Ontario M6E 4Y1

Subsidiary companies

Canada

A. H. McCoy Construction Company Limited
Bennett Paving & Materials Limited
Blue Diamond Holdings Ltd.
Canadian Ashland Exploration Ltd.
Canadian Williston Leaseholds Ltd.
Columbia Bitulithic Ltd.
Deschenes Construction Ltd.
Deschenes Structures Limited
Dibblee Construction Company, Limited
Eastern Bitulithic Limited
Franceschini Bros. Construction Limited
Hub City Paving Ltd.
MTR Leasing Limited
Northland Bitulithic Limited
R&E Paving (1975) Ltd.
TBG Contracting Ltd.
Towland-Hewitson Construction Limited
Towland (London) 1970 Limited
Twin Bridges Aggregates & Transport Ltd.
Vermilion Consolidated Oils Limited
Warren Bitulithic Limited
Warren (Maritimes) Limited
Wells Construction Ltd.
Whitehall Leaseholds Ltd.

Bermuda

Cran Exploration Ltd.
Cran Exploration (Iran) Ltd.

United Kingdom

Canadian Ashland Finance (U.K.) Limited
Canadian Ashland Oil (U.K.) Limited

Registrars and transfer agents

Common shares

Guaranty Trust Company of Canada:
Calgary, Toronto, Montreal, Winnipeg, Regina and Vancouver

Bank of New York:
New York, N.Y.

6% cumulative redeemable convertible preferred shares

Guaranty Trust Company of Canada:
Calgary, Toronto, Montreal, Vancouver

Trustees

5% convertible subordinated debentures, due 1993

National Trust Company, Limited:
Montreal, Toronto, Winnipeg, Calgary, Vancouver

10⅜% sinking fund debentures, due 1996

Montreal Trust Company:
Montreal, Toronto, Winnipeg, Calgary, Vancouver

SECTION II

Printed in Canada

ASHLAND OIL CANADA LIMITED ANNUAL REPORT 1976

ASHLAND OIL CANADA LIMITED ANNUAL REPORT 1976

The 1976 Annual Report is in two parts. Section I contains a review of the Company's operations while Section II contains the financial statements, notes to financial statements and other financial data and information. Both are essential parts of the 1976 Annual Report.

SECTION I

Company operations

SECTION II

Financial reports

The Annual General Meeting of shareholders of Ashland Oil Canada Limited will be held on Wednesday, January 19, 1977 at 10:00 a.m. at the Calgary Inn, Calgary, Alberta.

Si vous préférez recevoir le rapport annuel de la compagnie en français, veuillez en informer le Secrétaire, Ashland Oil Canada Limited, 1900 Travelers Tower, 400 University Avenue, Toronto, Ontario M5G 1S5.

SECTION II

Financial and operating highlights

Financial

	Year ended September 30, 1976	1975	% change
	in thousands except per share		
Revenue			
Oil and gas	$ 45,991	$ 36,138	
Asphalt paving and materials	116,776	113,338	
Chemical and petroleum products	29,249	23,628	
Other	2,332	3,142	
	194,348	176,246	+10
Net income for the year	15,236	15,002	+ 2
Per common share			
Net income for the year	1.17	1.16	
Cash flow	35,918	31,508	+14
Capital expenditures	31,673	33,497	– 5
Working capital	19,864	18,541	+ 7

Operating

	Year ended September 30, 1976	1975	% change
Production			
Crude oil and NGL – thousands of barrels	7,064	7,914	–11
Daily average	19.3	21.7	
Natural gas – millions of cubic feet	16,563	14,046	+18
Daily average	45.3	38.5	

	At fiscal year end 1976	1975	% change
Proven reserves			
Crude oil and NGL – millions of barrels	103.6	109.3	– 5
Natural gas – billions of cubic feet	449.3	379.7	+18

Summary of operations

	1976	1975	1974	1973	1972
			in thousands except per share		
Revenue					
Sales and operating revenue	**$192,667**	$174,877	$149,639	$102,862	$ 75,395
Other income	**1,681**	1,369	1,499	280	984
	194,348	176,246	151,138	103,142	76,379
Costs and expenses					
Cost of sales and operating costs	**129,221**	117,906	105,163	70,795	51,432
Selling, administrative and general expenses	**14,761**	12,564	9,733	6,652	5,226
Depreciation, depletion and amortization	**16,204**	13,478	12,694	10,461	8,144
Interest	**2,073**	1,992	1,786	1,194	613
	162,259	145,940	129,376	89,102	65,415
Income before income taxes, minority interest and extraordinary gain	**32,089**	30,306	21,762	14,040	10,964
Income taxes					
Current	**11,700**	11,600	1,352	622	380
Deferred	**4,450**	3,000	9,648	5,300	4,063
	16,150	14,600	11,000	5,922	4,443
Income before minority interest and extraordinary gain	**15,939**	15,706	10,762	8,118	6,521
Minority interest	**703**	704	704	706	706
Income before extraordinary gain	**15,236**	15,002	10,058	7,412	5,815
Extraordinary gain	**—**	—	1,314	—	—
Net income	**15,236**	15,002	11,372	7,412	5,815
Preferred dividend requirement	**92**	98	100	102	102
Net income applicable to common shares	**$ 15,144**	$ 14,904	$ 11,272	$ 7,310	$ 5,713
Net income per common share:					
Based on average shares outstanding					
Income before extraordinary gain	**$ 1.17**	$ 1.16	$ .77	$ .57	$ .45
Extraordinary gain	**—**	—	.10	—	—
Net income – basic	**$ 1.17**	$ 1.16	$ .87	$ .57	$ .45
Based on average shares and equivalent shares outstanding					
Income before extraordinary gain	**$ 1.10**	$ 1.09	$ .75	$ .57	$ .45
Extraordinary gain	**—**	—	.09	—	—
Net income – fully diluted	**$ 1.10**	$ 1.09	$ .84	$ .57	$ .45
Cash dividends per common share	**$ .20**	$ .50*	—	—	—
Average shares outstanding	**12,912**	12,886	12,868	12,778	12,742
Average shares and equivalent shares outstanding	**14,398**	14,406	14,396	13,957	13,089

*1975 Dividend – regular $.20; extra $.30.

Management's discussion and analysis of the summary of operations

1976 compared to 1975

Ashland Canada's operations in 1976 showed improvement over 1975 in revenue, net income and cash flow. Revenue increased 10% to $194.3 million, net income 2% to $15.2 million and cash flow 14% to $35.9 million.

The Company's $18.1 million increase in revenue was due primarily to increased crude oil and natural gas prices. In addition, gas production increased 18% to 45 million cubic feet per day arising, for the most part, from investment in gas exploration and development over the past three or four years. Offsetting the price increases was an 11% decline in oil production to 19,300 barrels per day brought about by increased government export restrictions and market prorationing. Increases in sales volumes along with marginal price increases from both the asphalt paving and materials operation and the chemical and petroleum products marketing operations also contributed to the overall increase in operating revenue.

Other income increased slightly due to increased profit on disposal of capital assets which was offset, in part, by lower amounts of interest earned on short-term investments.

The Company's consolidated operating income before income taxes increased 6% to $32.1 million during 1976.

- Oil and gas operations showed a 35% increase in operating income. Operating costs, in relation to income, were lower as a result of increased emphasis on gas sales and the upward movement of both crude oil and natural gas prices. This increase in income was achieved in spite of the additional $2.1 million amortization charge relating to foreign and frontier exploration costs as described elsewhere in this report.
- The asphalt paving and materials operations experienced an 8% decline in operating income during the year as a result of increased competition in the market place, higher material costs and some adverse weather conditions.
- The substantial drop in operating income from chemical and petroleum products marketing was primarily due to the delay and start-up of the new petrochemical facility, which commenced commercial operations during the year. In addition, lower profit margins due to higher operating costs, increased depreciation and market reluctance to accept higher product prices were contributing factors.

Changes in specific expense items as shown in the summary of operations are explained below:

- Selling, administrative and general expenses increased $2.2 million due to the increased volume of business, the cost of administering the expanded oil and gas capital programs, and the continuing higher costs of carrying on business in times of significant government intervention.
- Depreciation, depletion and amortization expense increased $2.7 million mainly due to the amortization of foreign and frontier full cost pools referred to above and to higher depreciation charges arising out of increased capital expenditures in all operating divisions, including the commencement of depreciation on the new $14 million chemical plant.
- Income taxes increased by $1.5 million reflecting higher taxable income, a decline in available depletion allowance and greater foreign exploration expenditures which, for the most part, are not deductible for income tax purposes.

1975 compared to 1974

Ashland Canada's operations in 1975 showed significant improvement over 1974 in both revenue and net income. Revenue increased $25.1 million, or 17%, while net income increased $5 million, equal to 50%. Revenue from the oil and gas operations increased 13% in spite of a 16% reduction in crude oil production. This increase reflected higher prices for both crude oil and natural gas. The increase of 20% in revenue from the asphalt paving operations, while not as significant as in fiscal 1974, was more comparable because the same operating entities were included in each year. The increase resulted from greater volumes and higher prices. The chemical and petroleum products marketing revenue did not increase to any extent as prices were under downward pressure throughout the year and volumes remained fairly static.

Other income items reflected an increase of $705,000 in interest earned on short-term investments and a decline in profits on the disposal of assets as compared to 1974.

Cost of sales and operating expenses declined in 1975 in relation to revenue and was most significant in the Asphalt Paving & Materials Division. It was also a factor in the oil and gas operations, with the reverse being true in chemical and petroleum products marketing. The improvement in the asphalt paving costs resulted from excellent weather in the last quarter, a more stable cost situation and from increased volume, all tending to reduce costs in relation to revenue.

Changes in certain other items of expenses, as shown in the summary of operations, are explained below:

- Selling, administrative and general expense increased $2.8 million as a result of increased business, inflationary increases in salaries and related costs but also due to the increasing complexity of administration in the oil and gas operations related to revised royalty systems, new incentive programs and numerous changes in Income Tax Acts and regulations by provincial and federal governments. In general, the more detailed and more frequent reporting requirements of government agencies are contributing to the continually increasing cost of administration.
- Depreciation, depletion and amortization expense increased by only $784,000. The decline in crude oil production reduced our total depletion charge in spite of a higher per barrel depletion rate. This rate is rising due to the increasing cost of finding and developing new reserves of crude oil and natural gas. In addition there was no amortization of investments in 1975 as there was in 1974. Offsetting these reductions were increases attributed to increased capital additions, particularly in the paving operations, and to the change in accounting policy on frontier exploration costs as discussed in the summary of significant accounting policies.
- Interest expense increased by $206,000 due to interest of $580,000 on long-term debt issued in September 1974, offset for the most part by a decline in short-term borrowings.
- Income taxes increased by $3.6 million which represented taxes on increased taxable income. The major shift from deferred to current taxes arose from (i) changes in the Income Tax Act reducing the rate of capital cost allowance on certain oil and gas expenditures and (ii) the reduced level of capital expenditures on exploration in Canada in 1975.

Stock market information

The principal market for the Company's voting shares is The Toronto Stock Exchange.

The following table sets forth the trading prices of the Company's voting shares (by class) on The Toronto Stock Exchange and the dividends paid for the past two fiscal years.

	Quarter 1st	2nd	3rd	4th
Common shares				
1976				
High	\$11½	\$11⅛	\$12¼	\$10¼
Low	8½	9	9	9⅛
Dividends	—	.10	—	.10
1975				
High	\$ 7	\$ 8	\$10⅛	\$12⅞
Low	4⅞	5½	6½	7⅛
Dividends	—	—	—	.50*
Preferred shares				
1976				
High	\$21½	\$21½	\$23½	\$20½
Low	16¾	20⅛	20	18½
Dividends	.75	—	.75	—
1975				
High	\$17¾	\$22¾	\$20½	\$24
Low	15	17¼	16	18½
Dividends	.75	—	.75	—

*1975 Dividend – regular \$.20; extra \$.30.

Quarterly results

Revenue	1976 (in thousands)	1975
December 31	**\$ 51,764**	\$ 47,532
March 31	**23,581**	19,743
June 30	**42,852**	33,754
September 30	**76,151**	75,217
	\$194,348	\$176,246
Net income		
December 31	**\$ 4,409**	\$ 3,341
March 31	**1,637**	2,239
June 30	**2,279**	2,468
September 30	**6,911**	6,954
	\$ 15,236	\$ 15,002

Earnings per share	1976	1975
Basic		
December 31	**\$ .33**	\$ .26
March 31	**.13**	.17
June 30	**.18**	.18
September 30	**.53**	.55
	\$ 1.17	\$ 1.16
Fully diluted		
December 31	**\$ .32**	\$ .24
March 31	**.12**	.17
June 30	**.17**	.18
September 30	**.49**	.50
	\$ 1.10	\$ 1.09

Summary of significant accounting policies

The significant accounting policies of the Company and its subsidiaries are summarized below to assist the reader in reviewing the financial statements and other data contained in this Report.

The Companies follow generally accepted accounting principles which are applied on a consistent basis. Modifications are made from time to time to reflect current accounting practices and improve financial reporting.

Principles of consolidation

The consolidated financial statement includes the accounts of the Company and all domestic and foreign subsidiary companies.

The current assets and all liabilities of the foreign subsidiaries have been translated into Canadian dollars at the exchange rate prevailing on September 30, 1976. Long-term assets have been translated at historical rates. The exchange adjustment is included in the statement of income.

The minority interest in preferred shares of a subsidiary company together with dividends thereon accrued from the date of the last semi-annual dividend payment are provided for on consolidation.

Inventories

Inventories are stated at cost as determined under the first-in, first-out or average cost methods. The aggregate of such inventories is not in excess of market.

Petroleum, natural gas and mineral properties

For all oil and gas exploration activities, both domestic and foreign, the Companies follow the full cost method of accounting, whereby all costs relative to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells less any proceeds from the disposal of properties.

The net costs incurred in Canada, except as noted in the following paragraph, are depleted by the unit of production method based on estimated proven oil and gas reserves.

Separate full cost centres are maintained for the Arctic Islands, Northwest Territories and East Coast Offshore areas of Canada. Net costs incurred in each of these areas are amortized on a straight line basis over five years. Should exploration activity in an area prove successful, the unamortized balance of the cost centre will be depleted by the unit of production method. Should exploration activity in an area prove unsuccessful and Management decides that there is little prospect for further work in the area, the unamortized balance of the cost centre will be written off entirely.

Separate full cost centres are established for each foreign country in which the Companies are engaged in exploration activities. Such costs are amortized over varying periods (not exceeding five years) during which exploration activities are expected to continue.

Mining exploration costs are capitalized as incurred. When a project is abandoned or is deemed to have little economic value the capitalized cost is charged to income. For any project that becomes proven, the capitalized cost will be amortized as estimated recoverable minerals are produced.

Equipment and other property

All equipment and other property is carried at cost. Petroleum and natural gas production equipment is depreciated by the unit of production method. Other equipment and property is depreciated generally on a straight line basis over estimated useful life.

Maintenance, repairs and renewals are charged to income at the time the expenditures are made. Expenditures for betterments are capitalized.

At the time the Companies retire or otherwise dispose of equipment or other property, the cost of the asset and the related allowance for depletion or depreciation is removed from the respective accounts. Gain or loss on disposals is included in income.

Income taxes

The Companies follow the tax allocation method of accounting whereby the income tax provision is based on

reported net income. Under this method, the Companies make full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the related depreciation, depletion and amortization provisions recorded in the accounts.

The Companies make full provision for income taxes relating to net holdbacks and unbilled work in progress, while actual payment of such taxes is related to the realization of these amounts.

Investment tax credit (available on certain assets purchased before 1977) is accounted for as a reduction of income tax expense in the year realized (flow-through method).

Net income per common share

Net income per common share is based on the weighted average number of common shares outstanding during each year after providing for dividends on the 6% cumulative redeemable convertible preferred shares. Fully diluted net income per share is calculated on the assumptions that (i) the 6% cumulative redeemable convertible preferred shares were converted at the beginning of the year; (ii) the 5% convertible subordinated debentures were converted at the beginning of the year and (iii) the employee stock options were exercised at the beginning of the year and interest was earned on the proceeds.

Other accounting policies

Income (including holdbacks) from asphalt paving contracts is recognized on the basis of actual work completed in the fiscal period.

The Company purchases crude oil from other producers for resale to refiners along with its own crude oil production. Crude oil purchases are offset against crude oil sales thus excluding such transactions from both revenues and costs. The tax on exports of crude oil collected and remitted to the Federal Government is also excluded from revenues and costs.

Long-term investments in other companies are carried at cost less an appropriate provision where there has been a decline in value.

Auditors' Report

To the Shareholders
Ashland Oil Canada Limited

We have examined the consolidated balance sheet of Ashland Oil Canada Limited and subsidiaries as at September 30, 1976 and September 30, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Ashland Oil Canada Limited and subsidiaries as at September 30, 1976 and September 30, 1975 and the results of their operations and changes in financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
November 1, 1976

Ernst & Ernst
Chartered Accountants

Consolidated balance sheet

Assets	1976	1975
	in thousands	
Current assets		
Cash and short-term notes	$ 3,150	$ 6,300
Accounts receivable	64,682	70,711
Asphalt paving contracts completed and in progress	6,940	7,560
Inventories	16,069	15,894
Deposits and prepaid expenses	1,680	1,627
Total current assets	92,521	102,092
Investments and other assets		
Investments in other companies	1,888	2,153
Receivables, deposits and other assets	2,364	2,644
	4,252	4,797
Property and equipment		
Petroleum, natural gas and mineral properties	155,460	137,886
Production equipment	29,352	26,445
Chemical and marketing	18,086	16,354
Asphalt paving	58,223	51,955
Other	2,308	2,315
	263,429	234,955
Less allowances for depreciation and depletion	98,082	85,337
	165,347	149,618
	$262,120	$256,507

Approved by the board:

Director

Director

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

Liabilities and shareholders' equity	1976	1975
	in thousands	
Current liabilities		
Bank indebtedness	$ 10,240	$ 8,683
Accounts payable and accrued liabilities	45,711	53,256
Crude oil export taxes	6,223	8,994
Income taxes payable	9,612	11,422
Accrued minority dividends	176	176
Current maturities of long-term debt	695	1,020
Total current liabilities	72,657	83,551
Long-term debt – less current maturities	30,392	30,945
Deferred income taxes	47,042	42,592
Minority interest in preferred shares of a subsidiary	7,032	7,040
Shareholders' equity		
Share capital		
6% cumulative redeemable convertible preferred shares of a par value of $25 Authorized and issued 200,000 shares; outstanding 60,244 shares (1975 – 62,184 shares)	1,506	1,555
Common shares of a par value of 45¢ Authorized 30,000,000 shares; issued and outstanding 13,132,837 shares (1975 – 13,121,486 shares)	5,910	5,905
Capital in excess of par value	23,258	23,157
Retained earnings	75,814	63,253
	106,488	93,870
Less cost of 215,683 common shares held by a subsidiary	1,491	1,491
Total shareholders' equity	104,997	92,379
	$262,120	$256,507

Consolidated statement of income

	1976	1975
	in thousands	
Revenue		
Sales and operating revenue*	$192,667	$174,877
Gain on disposal of assets	1,222	486
Other	459	883
	194,348	176,246
Cost and expenses		
Cost of sales and operating costs	129,221	117,906
Selling, administrative and general expenses	14,761	12,564
Depreciation, depletion and amortization	16,204	13,478
Interest	2,073	1,992
	162,259	145,940
Income before income taxes and minority interest	32,089	30,306
Income taxes		
Current	11,700	11,600
Deferred	4,450	3,000
	16,150	14,600
Income before minority interest	15,939	15,706
Interest of minority preferred shareholders in the net income of a subsidiary	703	704
Net income for the year	$ 15,236	$ 15,002
Net income per common share	$ 1.17	$ 1.16

*Excludes royalties, excise taxes and resale of purchased crude oil.

Consolidated statement of retained earnings

	1976	1975
	in thousands	
Retained earnings beginning of year	$ 63,253	$ 54,802
Net income for the year	15,236	15,002
	78,489	69,804
Dividends:		
Common shares	2,583	6,453
6% preferred shares	92	98
	2,675	6,551
Retained earnings end of year	$ 75,814	$ 63,253

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

Consolidated statement of changes in financial position

	1976	1975
	in thousands	
Working capital was provided from:		
Net income	$ 15,236	$ 15,002
Depreciation, depletion and amortization	16,232	13,506
Deferred income taxes	4,450	3,000
Provided from operations	35,918	31,508
Property and equipment disposals	498	712
Increase in long-term debt	145	433
Investments and other assets	249	103
Exercise of employee stock options	58	95
Total working capital provided	36,868	32,851
Working capital was used for:		
Property and equipment additions	32,171	34,209
Dividends	2,675	6,551
Reduction in long-term debt	698	1,115
Total working capital used	35,544	41,875
Increase (decrease) in working capital	$ 1,324	$ (9,024)
Changes in components of working capital:		
Increase (decrease) in current assets		
Cash and short-term deposits	$ (3,150)	$ (2,506)
Accounts receivable	(6,028)	5,396
Asphalt paving contracts completed and in progress	(619)	474
Inventories	174	4,371
Deposits and prepaid expenses	52	130
Increase (decrease) in current assets	(9,571)	7,865
Increase (decrease) in current liabilities		
Bank indebtedness	1,556	2,977
Accounts payable and accrued liabilities	(7,545)	9,583
Crude oil export taxes	(2,771)	(5,177)
Income taxes payable	(1,810)	9,635
Accrued minority dividends	—	(1)
Current maturities of long-term debt	(325)	(128)
Increase (decrease) in current liabilities	(10,895)	16,889
Increase (decrease) in working capital	$ 1,324	$ (9,024)

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

Notes to consolidated financial statement

Note A – accounting policies

The information presented on pages 6 and 7 summarizes the significant accounting policies of the Companies and is an integral part of the consolidated financial statement.

Note B – amounts owing by parent company

Accounts receivable include $21,027,000 ($31,055,000 in 1975) receivable from the sale of purchased and produced crude oil to Ashland Oil, Inc. This account is settled monthly in cash.

Note C – inventories

Inventories at September 30, 1976 and 1975 consisted of the following:

	1976	1975
Asphalt paving materials	**$ 7,875,000**	$ 8,153,000
Crude oil	**3,300,000**	3,822,000
Plastics, resins and chemicals	**2,945,000**	2,236,000
Refined and semi-refined products	**999,000**	834,000
Other operating supplies	**950,000**	849,000
	$16,069,000	$15,894,000

Note D – long-term debt

The long-term debt consists of:

	1976	1975
5% convertible subordinated debentures (unsecured) due January 15, 1993	**$19,902,000**	$19,902,000
Unsecured income debenture due September 30, 1979	**10,000,000**	10,000,000
5% unsecured notes due September 1977	**400,000**	800,000
5½% sinking fund redeemable notes, Series "A", due July 1, 1976	—	188,000
Other notes and mortgages	**785,000**	1,075,000
	31,087,000	31,965,000
Less current maturities included in current liabilities	**695,000**	1,020,000
	$30,392,000	$30,945,000

The 5% convertible subordinated debentures are convertible into common shares of the Company at the rate of 60 shares per $1,000 principal amount until January 14, 1983 and are subject to sinking fund provisions commencing January 15, 1984.

Interest on the unsecured income debenture, which is not deductible for income tax purposes is payable only out of profits at an annual rate of one half of the total of (i) the prime commercial lending rate of a Canadian chartered bank and (ii) 1.75%.

The amounts of long-term debt due during the four years following September 30, 1977 are: 1978 – $114,000; 1979 – $10,092,000; 1980 – $91,000; and 1981 – $62,000.

Debt issue expenses relating to the 5% convertible subordinated debentures are being amortized over 20 years. Current amortization of $28,000 (1975 – $28,000) is included in interest expense. The unamortized balance at September 30, 1976 amounted to $461,000 (1975 – $489,000).

Note E – shareholders' equity

Changes in the Company's share capital and capital in excess of par value during the two years ended September 30, 1976 are as follows:

	Number of shares	Par value	Capital in excess of par value
6% cumulative redeemable convertible preferred shares			
October 1, 1974	65,210	$1,630,000	
Converted to common shares	(3,026)	(75,000)	
September 30, 1975	62,184	1,555,000	
Converted to common shares	(1,940)	(49,000)	
September 30, 1976	60,244	$1,506,000	
Common shares			
October 1, 1974	13,100,795	$5,895,000	$22,898,000
Issued for cash on exercise of employee stock options	8,800	4,000	91,000
Issued on the conversion of preferred shares	6,011	3,000	73,000
Issued on the conversion of 5% debentures	5,880	3,000	95,000
September 30, 1975	13,121,486	5,905,000	23,157,000
Issued for cash on exercise of employee stock options	7,500	3,000	47,000
Issued on conversion of preferred shares	3,851	2,000	54,000
September 30, 1976	13,132,837	$5,910,000	$23,258,000

At September 30, 1976 and 1975 common shares of the Company were reserved as follows:

	1976	1975
Shares for the conversion of 5% convertible subordinated debentures	**1,194,120**	1,194,120
Shares for the conversion of 6% cumulative redeemable convertible preferred shares	**119,721**	123,577
Shares under employee stock options	**171,953**	202,703
Shares reserved for additional employee stock options which may be granted	**100,650**	77,400
	1,586,444	1,597,800

Note F – employee stock options

Options granting certain officers (four of whom are also directors) and employees the right to purchase common shares of the Company under the terms of a Preferred Employees' Stock Option Plan were outstanding as follows:

Expiry date	Exercise price	Number of shares September 30, 1976	1975
May 31, 1981	$10.75	**117,453**	135,453
May 31, 1981	11.75	**24,750**	26,000
May 31, 1981	12.00	**16,750**	16,750
August 13, 1979	7.125	—	5,000
May 31, 1981	6.75	**10,000**	19,500
August 24, 1981	9.50	**3,000**	—
		171,953	202,703

During the year ended September 30, 1976 options expiring on varying dates between June 14, 1976 and March 31, 1980 were extended to expire on May 31, 1981.

Changes in the number of common shares under option during the two years ended September 30, 1976 were as follows:

	1976	1975
Outstanding, beginning of year	**202,703**	198,253
Granted at $9.50	**3,000**	—
Granted at $6.75	—	21,500
Exercised at $6.75	**(3,500)**	—
Exercised at $7.125	**(2,500)**	—
Exercised at $10.75	**(1,500)**	(8,800)
Cancelled	**(26,250)**	(8,250)
Outstanding, end of year	**171,953**	202,703

Note G – income taxes

The Companies' policy for accounting for income taxes is described in the summary of significant accounting policies.

Income tax provisions amounted to $16,150,000 (50.3%) in 1976 and $14,600,000 (48.2%) in 1975. A reconciliation of these effective rates with the normal combined Canadian Federal and Provincial tax rates of approximately 48.0% in 1976 (50% in 1975), is as follows:

While the Companies are required to make full provision for income taxes relating to net holdbacks and unbilled work in progress on asphalt paving contracts, actual payment of such taxes is related to the realization of these amounts. As a result the provision for income taxes currently payable includes $6,340,000 ($6,037,000 in 1975) which becomes payable only after the related amounts are realized.

	Percentage of income before income taxes	
	1976	1975
Normal combined Canadian Federal and Provincial tax rate	**48.0**	50.0
Increase (decrease) resulting from:		
Inclusion of royalties and other payments to the Crown in taxable income	**32.6**	29.2
Federal resource allowance (tax abatement in 1975)	**(19.2)**	(10.0)
Provincial rebates	**(7.2)**	(9.1)
Depletion allowance	**(6.2)**	(14.3)
Other items	**2.3**	2.4
Effective Federal and Provincial tax rate	**50.3**	48.2

Note H – lease commitments

At September 30, 1976 the Companies were committed under non-cancellable leases for the following minimum annual rentals:

Year ended September 30,	Total	Financing leases	Other leases
1977	$772,000	$231,000	$541,000
1978	746,000	206,000	540,000
1979	705,000	172,000	533,000
1980	562,000	32,000	530,000
1981	270,000	—	270,000
1982 – 1986	993,000	—	993,000
1987 – 1991	394,000	—	394,000
1992 – 1996	204,000	—	204,000

Rental expense on the above leases was $847,000 for 1976 and $697,000 for 1975.

The estimated present value at September 30, 1976 of the net fixed minimum rental commitments for all non-capitalized financing leases, using an interest rate of 10%, is $531,000. If all financing leases had been capitalized there would have been little or no effect on net income.

Note I – commitments

The Company has entered into an agreement dated September 7, 1976 to acquire all of the outstanding common shares of Blue Crown Petroleums Ltd. for a cash consideration of approximately $9,000,000.

Commitments in the ordinary course of business for acquisition or construction of property and equipment are not material in relation to the Companies' net assets.

Note J – retirement plans

The Companies operate retirement plans which cover substantially all full time employees. At December 31, 1975, the date of the last actuarial evaluation, assets of the plans exceeded liabilities for retirement benefits accrued to that date. There are no unfunded past service liabilities.

Note K – remuneration of directors and senior officers

Direct remuneration of the Company's directors and senior officers for the year ended September 30, 1976 amounted to $860,000 (1975 – $770,000). An aggregate amount of $350,000 has been set aside in respect of incentive payments proposed to be made upon recommendation of the Compensation Committee of the Board of Directors to certain employees of the Company, some of whom are also directors and senior officers.

Note L – anti-inflation legislation

From October 14, 1975 the Company and its subsidiaries are subject to the Anti-Inflation Act which provides for the restraint of increases in profit margins, prices, dividends and compensation. There are many uncertainties as to the interpretation and application of this legislation.

Oil and gas operations are exempt from the provisions of the Act relating to profit margins and prices since they are regulated by other government legislation. The Company believes it is in compliance with those provisions of the Act that are applicable to its operations.

Until October 13, 1976, without Anti-Inflation Board approval, the Company may not declare or pay dividends to its common shareholders in excess of the current dividend of 50¢ per share in effect at October 13, 1975.

Note M – fully diluted net income per common share

Fully diluted net income is $1.10 per common share ($1.09 in 1975), calculated on the basis described in the summary of significant accounting policies.

Note N – subsequent event

The Company has entered into an agreement for the sale to underwriters of $30,000,000 principal amount of 10⅜% Sinking Fund Debentures due November 1, 1996, for a total consideration of $29,325,000 before deducting expenses of issue, estimated at $135,000.

Six-year review

	1976	1975	1974	1973	1972	1971
			in thousands except per share			
Operations by line of business						
Revenue						
Oil and Gas	**$ 45,991**	$ 36,138	$ 31,984	$ 25,298	$ 18,197	$ 16,067
Asphalt Paving and Materials	**116,776**	113,338	93,992	60,434	44,120	36,389
Chemical and Petroleum Products	**29,249**	23,628	23,016	16,417	13,078	10,864
Other	**2,332**	3,142	2,146	993	984	690
	$194,348	$176,246	$151,138	$103,142	$ 76,379	$ 64,010
Cash flow from operations						
Oil and Gas	**$ 24,370**	$ 18,425	$ 24,967	$ 17,908	$ 13,582	$ 12,138
Asphalt Paving and Materials	**11,363**	11,468	7,482	5,388	4,332	3,426
Chemical and Petroleum Products	**2,931**	3,595	1,509	758	727	564
*Unallocated items	**(2,746)**	(1,980)	(1,531)	(861)	(619)	(478)
	$ 35,918	$ 31,508	$ 32,427	$ 23,193	$ 18,022	$ 15,650
Net income before extraordinary gains						
Oil and Gas	**$ 11,232**	$ 10,057	$ 8,092	$ 5,785	$ 4,099	$ 3,553
Asphalt Paving and Materials	**6,339**	6,530	3,462	2,545	2,059	1,718
Chemical and Petroleum Products	**48**	857	1,346	543	535	397
*Unallocated items	**(2,383)**	(2,442)	(2,842)	(1,461)	(878)	(919)
	$ 15,236	$ 15,002	$ 10,058	$ 7,412	$ 5,815	$ 4,749
Capital expenditures (excluding corporate acquisitions)						
Oil and Gas	**$ 22,533**	$ 12,582	$ 16,399	$ 14,761	$ 9,659	$ 8,431
Asphalt Paving and Materials	**7,265**	8,974	5,389	3,875	4,350	4,118
Chemical and Petroleum Products	**1,744**	11,671	2,028	555	465	320
Other	**131**	270	206	283	112	487
	$ 31,673	$ 33,497	$ 24,022	$ 19,474	$ 14,586	$ 13,356
Financial position at year-end						
Working capital	**$ 19,864**	$ 18,541	$ 27,565	$ 12,866	$ 7,859	$ 7,020
Investments and other assets	**4,252**	4,797	4,928	5,689	4,169	3,279
Property and equipment – net	**165,347**	149,618	129,599	113,128	94,030	75,184
Total capital employed	**$189,463**	$172,956	$162,092	$131,683	$106,058	$ 85,483
Long-term debt	**30,392**	30,945	31,725	22,752	12,506	1,531
Deferred taxes	**47,042**	42,592	39,592	29,694	22,816	18,753
Minority interest	**7,032**	7,040	7,041	7,060	7,060	7,236
Shareholders' equity at book value	**$104,997**	$ 92,379	$ 83,734	$ 72,177	$ 63,676	$ 57,963
Financial statistics						
Per common share						
Cash flow from operations	**$ 2.78**	$ 2.45	$ 2.52	$ 1.82	$ 1.39	$ 1.24
Net income before extraordinary gains	**$ 1.17**	$ 1.16	$ .77	$ .57	$ .45	$ .36
Net worth	**$ 8.02**	$ 7.04	$ 6.37	$ 5.48	$ 4.86	$ 4.42
Net income before extraordinary gains						
As % of revenue	**7.8**	8.5	6.7	7.2	7.6	7.4
As % of average capital employed	**8.4**	8.9	6.8	6.2	6.1	5.8
As % of average common shareholders' equity	**15.7**	17.0	12.9	11.2	10.0	8.8
Long-term debt as % of capital employed	**16.0**	17.9	19.6	17.3	11.8	1.8

*The unallocated items include interest expense, corporate overhead, minority interest and other income (net of income tax).

Printed in Canada

Ashland

Interim report to shareholders

For the six months ended March 31, 1976

Ashland Oil Canada Limited

To the shareholders

Net income for the six month period ended March 31 was $6 million or 44¢ per common share compared with $5.6 million and 41¢ per share in the same period last year. Revenues of $75.3 million are up from $67.3 million, while cash flow increased by 24% to $14.1 million.

Crude oil production of 18,800 barrels per day was down from 21,900 barrels per day in the same period last year because of reduced exports and limited Canadian demand for medium and lower gravity crude oils during winter months.

Production of crude oil should increase over the balance of the year as access to the Montreal market begins to offset export restrictions. Revenues from oil would also be affected positively should the First Ministers' Conference in May reach agreement on a price increase for all crude oils.

Natural gas sales for the period increased to 42.6 million cubic feet per day from 37.2 million cubic feet per day. Gas sales and revenues should increase over the balance of the year as several projects in various stages of completion are brought on stream.

During the period Ashland Canada participated in drilling 120 wells in Canada. Of these 90 were completed for gas and 13 for oil production, while 17 were dry holes.

Ashland Canada holds 25% to 30% interests in 54,000 acres in the Keg River area of Northern Alberta on which four gas wells were completed before spring breakup. A major development program will likely be undertaken in next winter's drilling season.

Evaluation drilling is planned for the Long Coulee area of southern Alberta where the Company recently completed a 100% owned Lower Mannville oil discovery.

The first two of four Mackenzie Delta wildcat tests in which the Company has an interest were dry and abandoned. The third is now drilling in the Parsons Lake area and the fourth test will be drilled next winter.

Plant start-up costs and weak prices affected profits from chemical operations and, with reduced income from petroleum product marketing, had a restraining influence on second quarter profits which fell below those of last year.

The outlook for paving and construction operations is good with a satisfactory backlog of work going into the active spring and summer work season.

Results for the year should equal or exceed record levels of 1975 if crude oil demand and prices increase as expected.

H. EARL JOUDRIE
Chairman of the Board and
Chief Executive Officer

April 29, 1976

Consolidated statement of income*

($000's omitted)

	Three Months Ended March 31		Six Months Ended March 31	
	1976	1975	1976	1975
INCOME				
Net sales and operating revenues	$22,943	$19,334	$74,512	$66,619
Gain on disposal of assets	459	136	472	148
Miscellaneous income	179	273	361	508
TOTAL INCOME	23,581	19,743	75,345	67,275
EXPENSES				
Costs and expenses	16,764	12,992	54,688	49,257
Depreciation, depletion and amortization	2,931	2,093	6,970	5,108
Interest on long-term debt	424	412	835	847
TOTAL EXPENSES	20,119	15,497	62,493	55,212
Income before minority interest and taxes	3,462	4,246	12,852	12,063
Provision for taxes on income:				
Current	1,148	1,793	5,329	5,400
Deferred	502	39	1,126	732
TOTAL TAXES	1,650	1,832	6,455	6,132
Income before minority interest	1,812	2,414	6,397	5,931
Minority interest	175	175	351	351
NET INCOME	**$ 1,637**	**$ 2,239**	**$ 6,046**	**$ 5,580**
Income per common share:				
Basic income	**13¢**	**17¢**	**46¢**	**43¢**
Fully diluted income	**12¢**	**17¢**	**44¢**	**41¢**
Cash flow from operations – see accompanying statement of changes in financial position	$ 5,069	$ 4,371	$14,142	$11,420
Average daily production (gross before royalties):				
Crude oil and natural gas liquid products (barrels)			18,772	21,937
Natural gas (millions of cubic feet)			42.6	37.2

On behalf of the Board:

Director

Director

Consolidated statement of changes in financial position*

($000's omitted)

	Six Months Ended March 31	
	1976	1975
WORKING CAPITAL WAS PROVIDED FROM:		
Net income	$ 6,046	$ 5,580
Depreciation, depletion and amortization	6,970	5,108
Deferred income taxes	1,126	732
Provided from operations	14,142	11,420
Property and equipment disposals	58	147
Decrease in notes receivable	497	106
Miscellaneous	19	—
TOTAL WORKING CAPITAL PROVIDED	$14,716	$11,673
WORKING CAPITAL WAS USED FOR:		
Property and equipment additions	$13,166	$14,021
Reduction in long-term debt	106	374
Dividends – preferred shares	46	49
– common shares	1,291	—
Miscellaneous	8	100
TOTAL WORKING CAPITAL USED	$14,617	$14,544
Increase (decrease) in working capital	$ 99	$(2,871)
Working capital at beginning of period	18,541	28,040
Working capital at end of period	$18,640	$25,169

Condensed consolidated balance sheet*

($000's omitted)

	Six Months Ended March 31	
	1976	1975
ASSETS		
Current assets	$ 66,274	$ 79,609
Investments and other assets	4,136	4,908
Property, plant and equipment – net	155,918	138,379
	$226,328	$222,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	$ 47,634	$ 54,440
Long term debt – less current portion	30,839	31,352
Deferred income tax	43,719	38,999
Minority interest	7,032	7,040
Shareholders' equity	97,104	91,065
	$226,328	$222,896

*The above statements are unaudited and subject to year-end adjustments.